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TANA MICROBUSINESS FINANCE PROGRAM
THIRD PARTY EVALUATION

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MONTANA MICROBUSINESS FINANCE PROGRAM

THIRD PARTY EVALUATION

Prepared For

The Montana Department of Commerce

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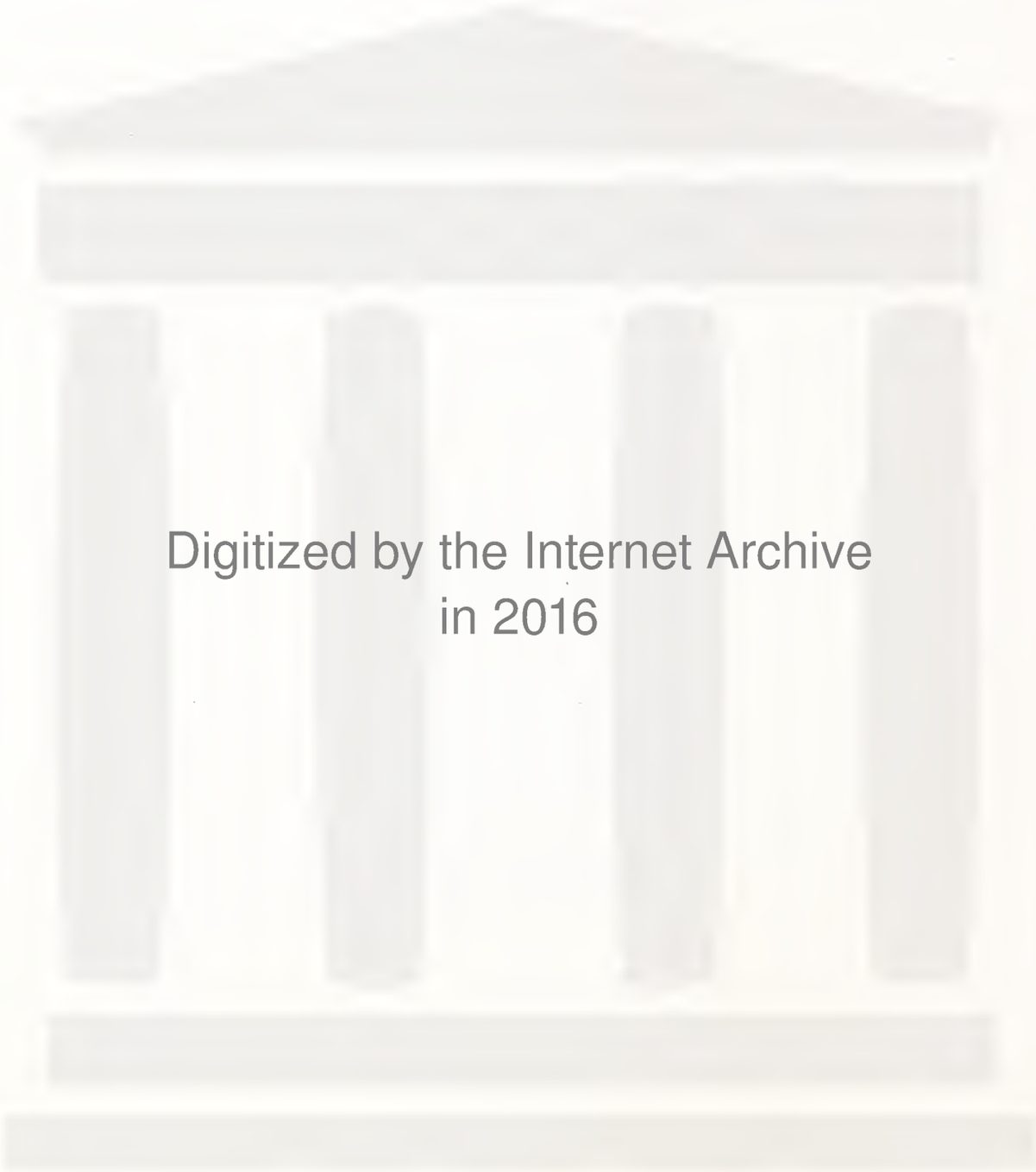
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MONTANA MICROBUSINESS FINANCE PROGRAM
THIRD PARTY EVALUATION

CHAPTER I
INTRODUCTION

This report presents the results of a third-party evaluation of the Montana Microbusiness Finance Program (MBFP). The MBFP was established by the 1991 legislative session. It provided for the establishment of 12 regional and one statewide microbusiness finance corporations and set aside money from the Coal Tax Trust Fund for loans of up to $250,000 to each corporation. The funds were to be loaned to microbusiness, defined as businesses with under $500 thousand in annual sales and no more than 10 employees.

The legislature defined several goals for the program. It was to provide a mechanism for finance for a segment of the economy not well served by the banking industry. It was to provide entrepreneurial training and business assistance to inexperienced individuals starting new ventures. It was to contribute to economic development and provide new jobs. In addition to these goals appearing in the statement of intent, the fiscal note promised to create jobs, assist low-income individuals climb out of poverty and reduce assistance costs, and to increase tax revenues for the state.

The program is now up and running. It is an experiment with 11 (ultimately 13) different approaches. In addition to the direct program benefits it may tell us what works and how to best structure a program for microbusiness finance. In July of 1994 the Department of Commerce issued an RFP for a cost-benefit analysis of the program. This report presents the results of that evaluation. The evaluation goes beyond a simple cost-benefit analysis, however. It also includes a process analysis. A cost-benefit analysis evaluates outcomes: it addresses the issue of whether the program provided benefits sufficient to justify its costs. A process analysis evaluates the internal structure and functioning of the program, and looks for ways to make the program operate more effectively. The two approaches complement each other and provide guidance on the value to the state and to society of the program as currently operated and the potential for improving the delivery of cost-effective benefits.

This report is structured as follows: The first chapter consists of a description of the program, including a discussion of the Department of Commerce MBFP programs, and a process analysis of the program. It also discusses the local MBDCs, their lending practices and their loan portfolios. The second chapter presents the process analysis, an evaluation of the costs and benefits of the program from the time of its inception through October 1, 1994. The third chapter is a discussion of a number of issues that have been raised in the evaluation. These issues relate to the goals of the program and the constraints under which it operates. The fourth chapter presents a discussion of possible conclusions and recommendations that can be drawn from the results of the process and outcome evaluations. Finally, a series of appendices present methodological discussions and numerical detail that supplement the report for the interested reader.

CHAPTER II
PROCESS ANALYSIS OF THE MONTANA MICROBUSINESS FINANCE PROGRAM

A. LEGISLATIVE HISTORY

The Microbusiness Finance Program was instituted by the Montana Legislature in 1991 and amended by the 1993 Legislature. Initial and subsequent legislation defined the program's purpose and scope; provided structure; assigned responsibility for statewide program administration; authorized establishment and defined responsibilities of local and statewide Microbusiness Development Corporations (MBDCs); defined the program's target populations; funded the principal of a revolving loan fund; and, also provided a mechanism for ongoing funding of state and MBDC administration and oversight of the program.

The Microbusiness Development Act identified several goals for the program:

- foster statewide economic development;
- provide mechanism of financing development of small businesses which do not have access to conventional financing;
- provide entrepreneurial training and business assistance to inexperienced individuals starting new ventures;
- create jobs and personal earnings for Montana residents; and
- serve minorities, women, and low income persons.

The fiscal note associated with the legislation indicated the program also was expected to:

- increase tax revenues for the state;
- assist low-income individuals climb out of poverty;
- reduce public assistance costs; and
- achieve financial self-sufficiency for program (i.e. interest income and other earnings were to cover costs of administering the program).

Other legislation highlights include:

- directs that Microbusiness loans and business assistance services be made available statewide;
- authorizes establishment of 12 regionally based Microbusiness Development Corporations (MBDCs) and one statewide MBDC;
- establishes and defines responsibilities for a Microbusiness Advisory Council;

- outlines duties and certification criteria for MBDCs;
- provides $3.25 million from the Coal Tax trust Fund to be deposited into a Microbusiness Development Loan Account;
- authorizes the Department of Commerce to loan up to $250,000 from the Microbusiness Development Loan Account to each MBDC.
- authorizes the MBDCs to establish revolving loan fund accounts;
- requires a 1 to 6 match from MBDCs to secure loans from the Microbusiness Development Loan Account (the match requirement was changed from 1 to 3 by the 1993 Legislature);
- assigns statewide administration and oversight responsibilities to the Department of Commerce;
- defines the program's target population as businesses with under $500,000 in annual sales and no more than 10 employees;
- limits the amount of loans made by MBDC's to Microbusinesses to $20,000 or less;
- provides that interest earnings from Microbusiness loans may be used to pay operating expenses of MBDCs;
- authorizes the Department of Commerce to expend program related income (including grants and other outside income, as well as interest payments received from MBDCs) for purposes of administering the program.
- authorizes the Department of Commerce to build a loan loss reserve fund of up to $50,000, to be financed by interest payments made by MBDCs to DOC.

B. ADMINISTRATIVE HISTORY

1. DEPARTMENT OF COMMERCE ADMINISTRATIVE COSTS AND STAFFING

From the onset of the program through the 1st Quarter of 1994-95, the Department of Commerce has expended $236,000 administering the Microbusiness program.

TABLE II-1

DOC Operations costs by Fiscal Year:		
	1991-92	$ 27,740
	1992-93	60,556
	1993-94	72,720
	1994-95	74,948
		$235,964

Staffing:

In 1991, the Department allocated 1 FTE (professional) and ½ FTE (support) to administer the program. Staffing for the program has not changed. Administration of the Microbusiness Program also receives professional and clerical support from other DOC agencies; some of this time is also charged to the program.

2. ADMINISTRATIVE RULE MAKING/CONTRACTS WITH MBDCS

Administrative rules for implementing the Microbusiness Finance Program were adopted by the Department of Commerce in 1991 and amended in 1993.

In addition, contracts between the Department of Commerce and the Microbusiness Development Corporations stipulate conditions under-which MBDCs may receive and loan funds from the state. Contracts also specify performance criteria for MBDCs. For example, contracts stipulate that 35 percent of a MBDC's loan fund be outstanding (loaned out) during the first year; 55 percent the second year; 75 percent the third year; 80 percent the fourth year.

3. ESTABLISHMENT OF BUSINESS DEVELOPMENT LOAN ACCOUNT AND DISBURSEMENT OF FUNDS

The Business Development Loan Account was established in FY 1991-92. By July 1, 1994, all but $100 of appropriated funds were loaned out to Microbusiness Development Corporations.

TABLE II-2
Business Development Loan Account Balance
Unallocated Loan Fund Principal- Funds not lent to MBDCs
(through 1st Quarter 1994-1995)

July 1, 1992 (FY 1992-93)	$3,500,000
July 1, 1993 (FY 1993-94)	$1,502,774
July 1, 1994 (FY 1994-95)	$ 100

Authorization for a state Loan Loss Reserve Fund was added by in 1993 Legislature.

State Loan Loss Reserve Account Balance
(through 1st Quarter 1994-1995)

FY 1994-1995	est. $20,000

4. FORMATION OF MICROBUSINESS ADVISORY COUNCIL

A 13 member Microbusiness Advisory Council was formed in 1992. The Advisory Council meets quarterly.

Council Members (1995):

Duane Kurokawa, Wolf Point, Banker
David T. Bond, Whitefish, Business Owner
Doug Boutilier, Helena, Banker
Janene R. Brown, Libby, Economic Development Entity Representative
Mary Brydich, Helena, Business Owner
Robyn Morrison Hampton, Helena, Loan Fund Administrator
Robert Storey, Missoula, Business Owner (NFIB)
Peter Greybull II, Crow Agency, Native American Representative
Jody Smith, Miles City, Business Owner
Dick King, Havre, Loan Fund Administrator
Craig Smith, Wolf Point, Economic Development Entity Representative
Dolph Harris, Sidney, Business Owner
Kim Peterson, Havre, Low Income Representative

Past Members:

Jeanne Moeller, Billings, Chamber of Commerce
Dan Ingolls, Miles City, Chamber of Commerce
Richard Greenshields, Browning, Business Owner (NFIB)
Judith Johston, Helena, Business Owner
Jamie Kay, Missoula, Business Owner
Anita Dupuis, Pablo, Native American Representative
Rick Sharp, Havre, Low Income Representative
Harold Frazier, Banker, Missoula
Barbara Burke, Missoula, Loan Fund Administrator

Four members of the Legislature are appointed every two years to form the Legislative Panel which convenes with the Advisory Council.

Legislative Panel:

1991	1993
Senator Greg Jergeson	Senator Ken Mesaros
Senator Jerry Noble	Senator Mignon Waterman
Representative Steve Benedict	Representative Norm Mills
Representative Don Larson	Representative Bob Bachini

5. GRANTS

On behalf of the Microbusiness Finance Program the Department has successfully procured $890,000 in grants to assist in paying for state and local administration of the program and training for program personnel. This evaluation of the Microbusiness Program was also funded through a grant from US West Corporation. Individual MBDCs have also been successful in procuring additional outside grants for program implementation.

TABLE II-3
Grants Received for Development and Implementation of the Montana Microbusiness Finance Program

Year	Term	Source	Amount	Use of Funds
1991	3-yr.	US West	$360,000	Pass-through to MBDCs for Adm.
1993	3-yr.	US West	30,000	Pass-through to MBDCs for Adm.
1994	6-mo.	US West	25,000	Evaluation of Program for Adm.
1994	1-yr.	JTPA	350,000	Pass-through to MBDCs & DOC for entrepreneur train.
1994	1-yr.	SBA	125,000	Training for entrepreneurs & MBDC staff
			$890,000	

C. CERTIFICATION OF MICROBUSINESS DEVELOPMENT CORPORATIONS

An expectation of the enabling legislation was that Microbusiness loans and related business development services would be available and accessible in all areas of Montana. The legislation authorized up to 12 regional Microbusiness Development Corporations and one statewide MBDC.

TABLE II-4
Chronology of Microbusiness Development Corporation Certification
Region, Location, Parent Organization

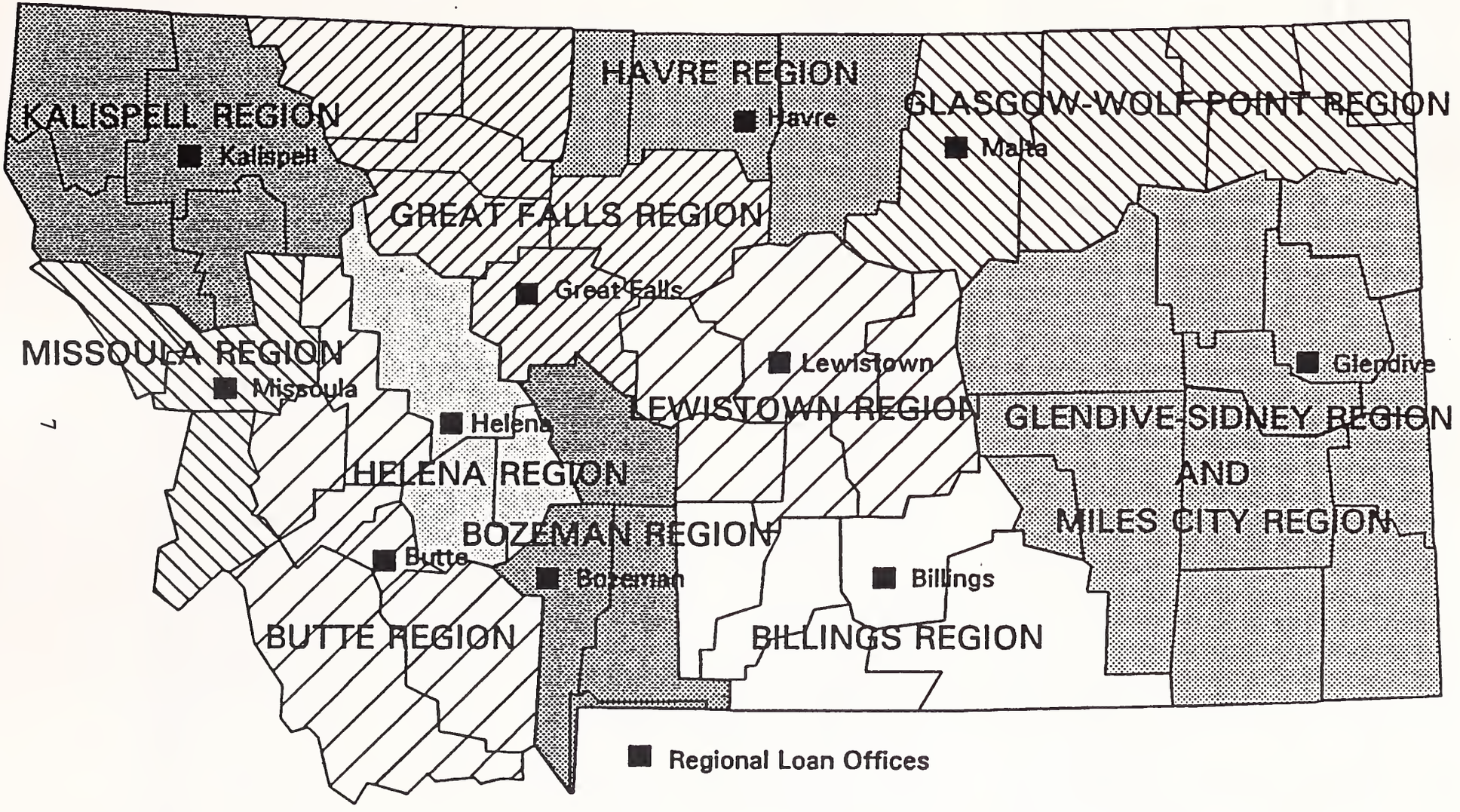
CERTIFICATION DATE	REGION	LOCATION	ORGANIZATION
1992-Oct.	IX	Billings	Dist. VII, HRDC
1992-Aug.	VI	Bozeman	Dist. IX, HRDC/ Capital Opportunities
1993-May	III	Butte	Headwaters RC&D
1994-July	XI/XII	Glendive-Miles City	Action for Eastern Montana
1993-July	VI	Great Falls	Opportunities Inc.
1992-July	VII	Havre	Bear Paw Development Corp.
1993-July	V	Helena	Montana Women's Capital Fund
1992-July	I	Kalispell	Northwest Montana Human Resources
1992-Dec.	VIII	Lewistown	Dist. VI, HRDC
1993-July	X	Malta-Wolf Point	PhillCo. Economic Growth Council
1992-July	II	Missoula	Women's Economic Development Group
1993-July	--	Statewide	Montana Women's Capital Fund

- Though the Glendive-Miles City, Malta and Great Falls MBDCs were certified July 1993, they did not begin lending until early 1994 using the time to establish infrastructure.

- A Statewide MBDC was established in June of 1993. The emphasis of the statewide MBDC will be on serving minority populations; and, in particular Native American Indians. The Helena-based Women's Capital Fund was to administer the program. Delays have occurred in reaching working agreements with tribal government, and no microbusiness loans by the Statewide MBDC have been made.

- In the fall of 1994, 7 MBDCs are located in Human Resource Development Councils, 3 are located in local Economic Development Agencies, and 3 are located in agencies within or affiliated with Woman's Organizations.

MICROBUSINESS DEVELOPMENT CENTERS



Evaluator's Comment:

The decision by the legislature to certify up to 13 Microbusiness Development Corporations was made in order to achieve a high level of access to Microbusiness loans and services throughout Montana. The initial program design called for certification of a much smaller number of MBDCs. The tradeoff involved in funding the larger number of MBDCs was to reduce the ability of individual MBDCs to achieve financial self-sufficiency.

D. MBDC PROCUREMENT OF LOCAL MATCHING FUNDS

Initial enabling legislation (1991) required MBDCs to provide $1 of local matching funds for every $3 borrowed from the state's Business Development Loan Account. In FY 1992-1993, MBDCs in Havre, Bozeman, Kalispell, Missoula, Billings, and Lewistown were successful in achieving the required match. Importantly, several other regions of Montanan were unable to raise the required matching funds. The 1993 Legislature lowered the required match to $1 local funds to $6 borrowed from the state. In 1993-1994, necessary matching funds were developed in MBDCs in Butte, Great Falls, Helena, Malta-Wolf Point, and Glendive-Miles City. Matching funds were also procured by the Statewide MBDC based in Helena.

Evaluator's Comment:

Montana's 1995 Legislature will vote whether or not to allocate another $3.25 million from the Coal Tax Trust Funds to the Microbusiness Loan Program. Obtaining additional local matching funds ($42,000 in local funds to $250,000 in state funds) will again pose an obstacle for the MBDCs. In conjunction with expanding the program's loan fund, the Legislature should also consider downsizing or providing for more flexibility in meeting the local matching requirement. Based on the survey of MBDCs, most MBDCs anticipate extreme difficulty in raising another round of local matching moneys based on a $1 to $6 ratio local to state funds.

E. MICROBUSINESS LOAN SUMMARY

1. PROGRAM LENDING SYNOPSIS:

In the fall of 1994 the status of program lending was:

- $3,249,900 has been loaned to MBDCs.
- a total of 186 loans were made to Montana Microbusinesses.
- total amount of the loans made by MBDCs was $1.86 million.
- 165 individual businesses received loans.
- average amount of loan was $10,000.
- 157 loans were outstanding/ valued at $1.18 million.
- 30 loans have been fully repaid/ valued at $221,000.
- 13 loans had been written-off/ valued at $69,181.
- 18 loans were delinquent (10 to 60 days past due)/ valued at $22,000.

The number of Microbusiness loans and the amount of money loaned by the program has steadily increased. Figures 1 and 2 summarize the number and loan dollar values of loans by MBDCs over time. These figures also display the number and aggregate values of loans fully repaid by borrowers and unsuccessful loans which have been written off by the MBDCs. Figures 3 and 4 display program lending by business quarter and illustrate that program activity has varied over time.

It is noteworthy that dollar value of loans made was lower during reporting quarters of 1993 and much of 1994, than during the initial period of program operation. Program activity surged again and during the most recent reporting period (FY 1994-1995, Quarter-1).

Figure 1. displays the historic progression number of loans and the dollar amount of loans by individual MBDC. The number of loans and amount of money loaned has varied by MBDC. In addition, individual MBDCs have experienced cycles of high and low activity levels. One MBDC, operated by Bear Paw Development Corporation in Havre, has loaned out all of its funds.

2. DISTRIBUTION OF MICROBUSINESS LOANS BY ECONOMIC SECTOR:

The greatest share of Microbusinesses funds have been loaned to businesses in the service, manufacturing, and retail sectors.

TABLE II-5
Dollar Value Microbusiness Loans by Economic Sector
October 1, 1994

	Dollar Value of Loans Made	Percent of Dollars Loaned
Agri, For, Fisheries	$ 60,379	3%
Construction	130,968	7%
Manufacturing	517,692	27%
Transp. & Utl.	83,545	4%
Wholesale Trade	83,295	4%
Retail Trade	464,814	25%
Fin, Ins, R.Estate	5,184	0%
Services	546,092	29%
TOTAL FUNDS LOANED	**$1,891,969**	**100%**

3. MEETING CONTRACT LENDING TARGETS:

MBDC contracts with the DOC specify performance targets for lending of microbusiness loan fund principal. In the fall of 1994, MBDCs were contractually obliged to have $1.43 million in outstanding loans and had loaned out about $1.25 million. A point of concern is that seven of the MBDCs did not meet their contract targets. The seven have fallen short by amounts varying from $6,000 to $104,000. In addition, the Statewide MBDC has incurred organizational difficulties, and has made no loans. The rate of lending for some MBDCs declined markedly after a high level of initial activity. TABLE II-6 and Figure 5 display the performances of individual MBDCs relative to their contracts with DOC.

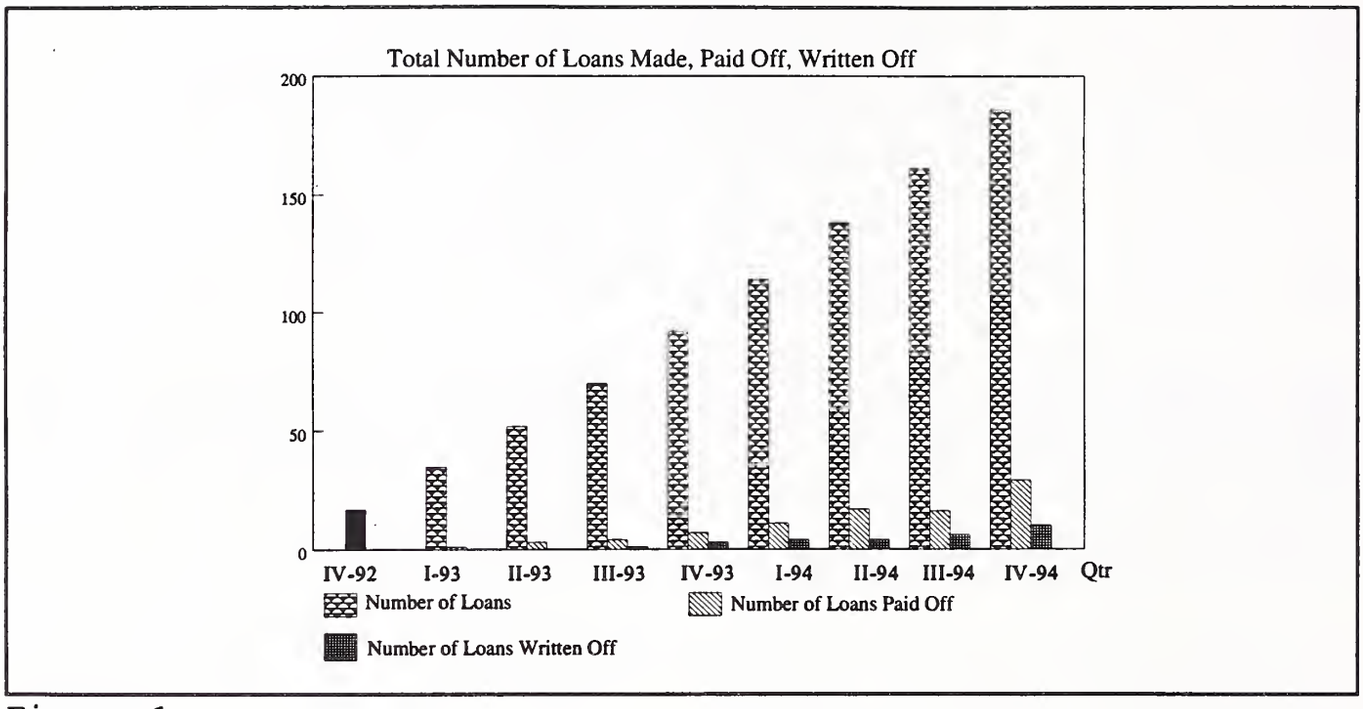
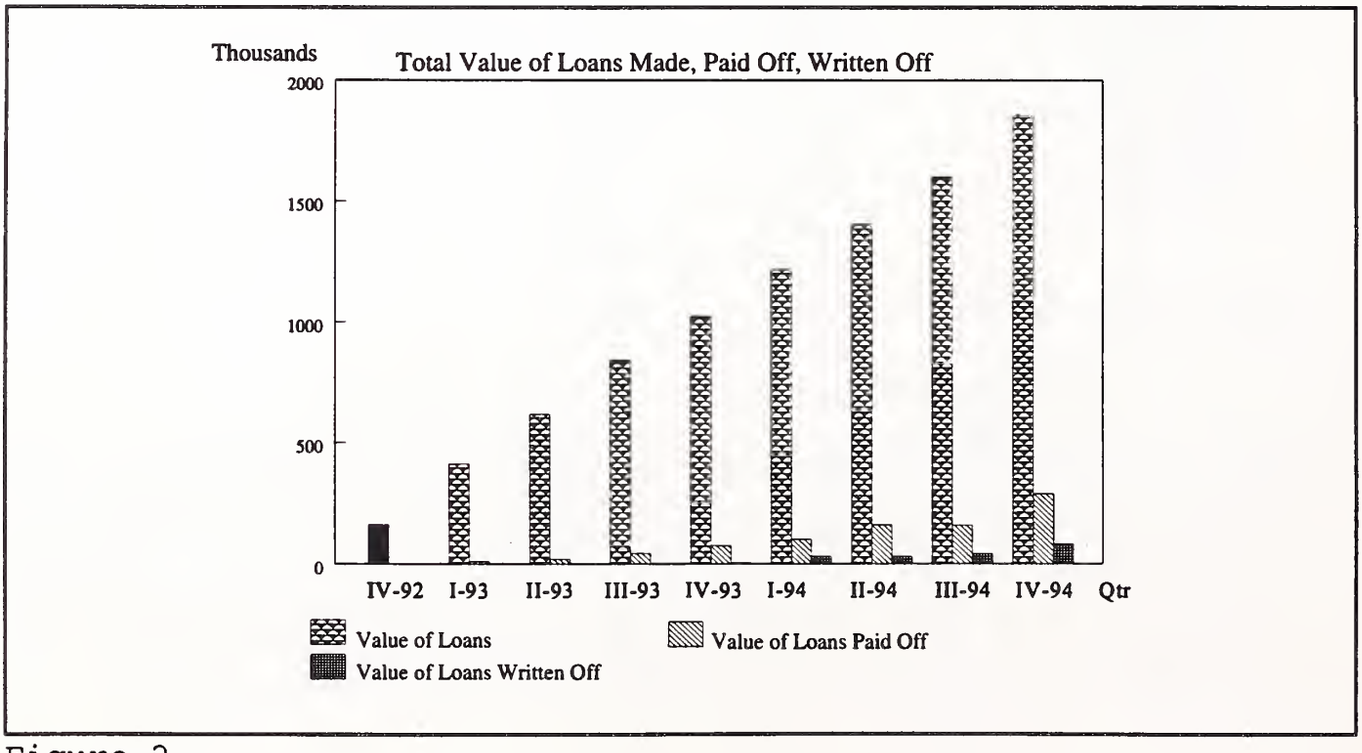


Figure 1



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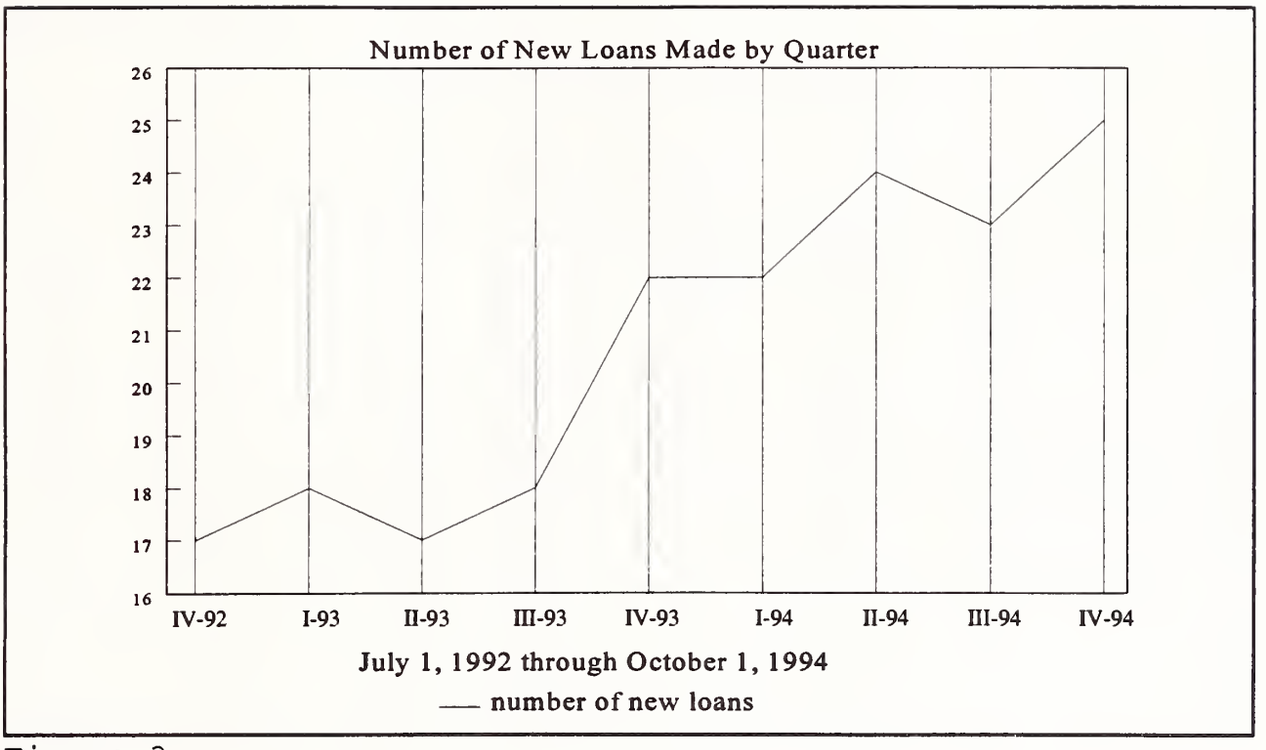

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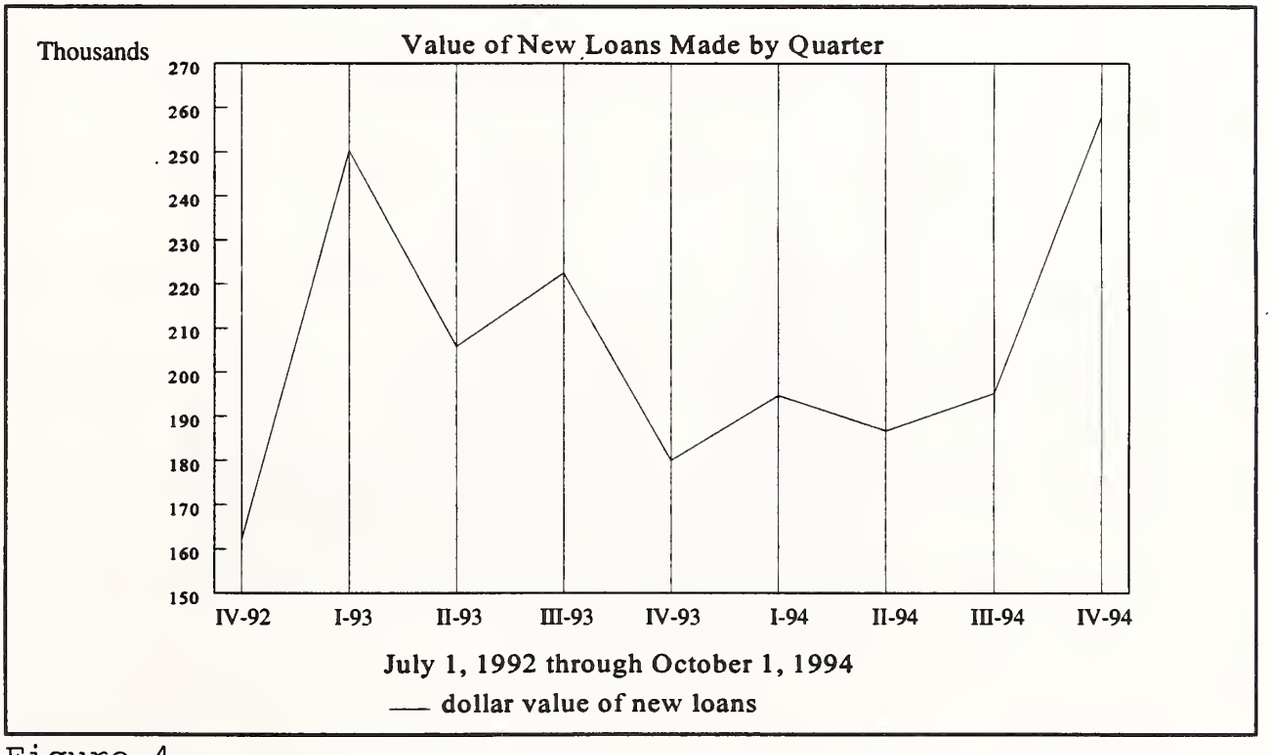

Figure 4

TABLE II-6

Portion of Loan Funds which are Outstanding Compared to MBDC-DOC Contract
1st Quarter 1994-1995 (September 30, 1994)

	Total Funds	Total Value Loans Made	Value of Outstanding Loans	Balance Unloaned Funds	DOC Contract Lending Target	Net MBDC Performance Re: DOC Contract	
Billings	$332,000	$173,653	$112,223	$219,777	$175,753	$ -63,530	- 36%
Bozeman	333,333	205,689	205,689	119,584	174,775	+30,914	+ 18%
Butte	436,301	78,881	60,881	363,234	146,112	- 85,231	- 58%
Glendive Miles City	180,000	37,860	26,024	153,976	32,299	-6,275	- 19%
Great Falls	419,452	78,800	77,433	342,019	146,747	-69,314	- 47%
Havre	290,000	322,709	254,709	34,864	151,011	+103,698	+ 69%
Helena	290,000	245,052	239,102	50,898	99,574	+139,528	+140%
Kalispell	333,333	160,223	83,613	229,720	167,840	-84,227	- 50%
Lewistown	228,000	67,814	67,814	160,186	78,306	-10,492	- 13%
Malta Wolf Point	280,000	52,050	51,636	228,364	97,643	-46,007	- 47%
Missoula	333,333	213,508	75,595	221,170	160,157	-84,562	- 53%
Statewide	290,000	0	0	290,000	101,500	-101,500	-100%
Summary							
All MBDCs	$3,745,752	$1,636,239	$1,254,719	$2,413,792	$1,531,717	($276,998)	-18%
W/O State MBDC	$3,455,752	$1,636,239	$1,254,719	$2,123,792	$1,430,217	($175,498)	-12%

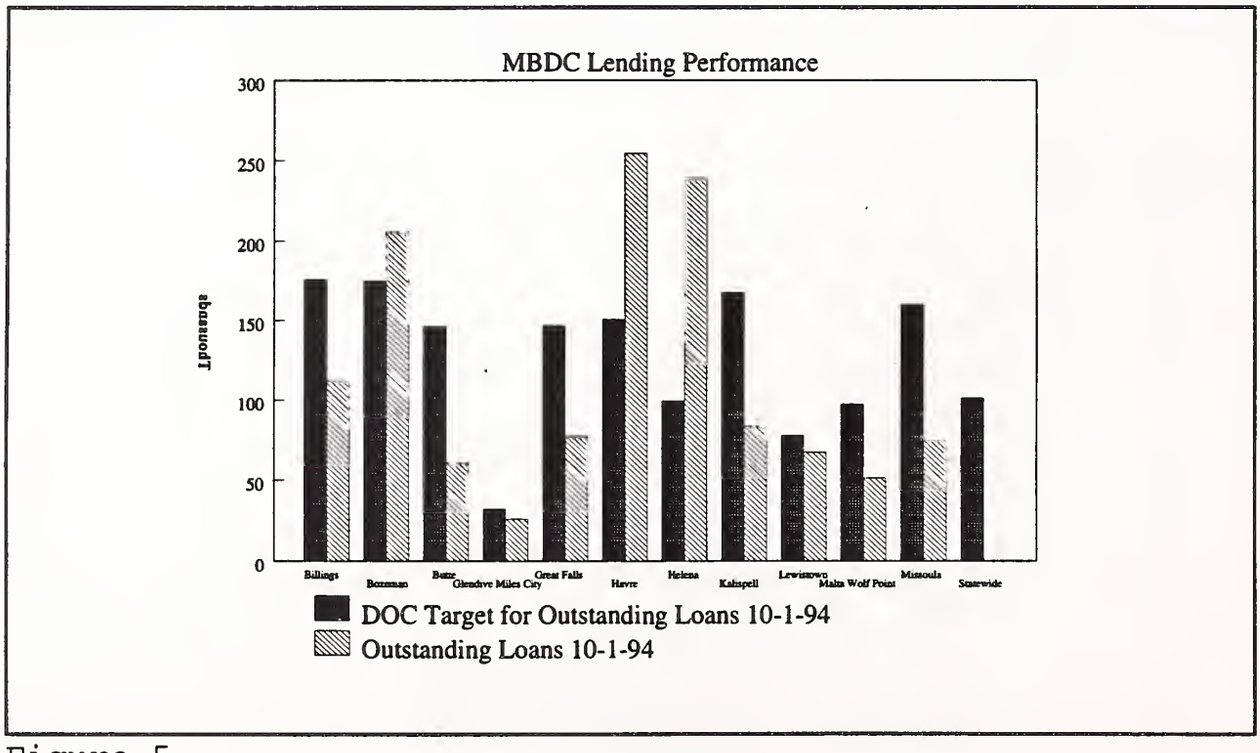

Figure 5

F. ACHIEVING OTHER PROGRAM GOALS

Department of Commerce reporting requirements (e.g. Quarterly Reports); meetings and personal interviews with DOC and MBDC personnel; meetings with the Microbusiness Advisory Council and the Microbusiness Development Corporation Association; and surveys of Microbusiness Development Corporations and loan recipients are used to analyze how well other program goals are being accomplished. Seventy-three businesses funded under the Microbusiness Program responded to the survey and ten of the eleven MBDCs responded to the survey this fall.

1. NEW BUSINESS CREATION/BUSINESS RETENTION

The survey of Microbusiness owners inquired as to whether or not their businesses were in operation prior to applying for a Microbusiness loan. The majority of the businesses receiving microbusiness loans were already in operation. Most of the pre-existing businesses were operating on a limited scale.

- 23 percent of businesses receiving Microbusiness loans were in full operation prior to receiving a Microbusiness Loan.
- 39 percent of businesses receiving Microbusiness loans were operating on limited scale prior to receiving a Microbusiness Loan.
- 39 percent of businesses receiving Microbusiness loans were not in operation prior to receiving a Microbusiness Loan.

The survey of business owners also inquired as to the role the Microbusiness loan played in establishing (initially opening) and/or allowing a business to stay in operation. Based on survey results, the vast majority of businesses receiving Microbusiness loans would not have been able to open-up, or would not have been able to stay in operation had they not received Microbusiness loans.

- 70 percent of business owners indicated they would not have been able to start or stay in business if they had not received a Microbusiness loan.
- 19 percent of respondents indicated they would still have been able to operate their business, but business development would have been less.
- 12 percent of respondents indicated they would still have been able to operate their business, and business development would have been about the same.

Microbusiness loans have been crucial to both start-up and pre-existing businesses.

- 82 percent of the owners of start-up businesses indicated they would not have been able to open their business without a Microbusiness loan.
- 63 percent of pre-existing businesses indicated they would not have been able to stay in operation without a Microbusiness loan.

2. SERVING BUSINESSES WITHOUT ACCESS TO CONVENTIONAL FINANCING

Survey results indicate that most businesses receiving Microbusinesses loans were unsuccessful in obtaining financing from private commercial lenders. More than half of the MBDCs require a bank "turn-down" as a pre-condition to being eligible for a Microbusiness loan.

- two-thirds (67 percent) of businesses receiving loans from MBDCs inquired about a loan from a private lender before talking to an MBDC about a Microbusiness loan;

- the vast majority (89 percent) of Microbusinesses which did inquire about commercial loans did not receive commercial loans; or, about 11 percent of Microbusinesses who inquired about conventional business loans were successful in borrowing funds. In these cases, moneys from the Microbusiness Loan Fund are supplementing or being supplemented by the capital lent by private institutions;

- A third (33 percent) of microbusiness borrowers did not investigate borrowing from private lenders.

Evaluator's Comment:

MBDCs charge higher interest rates for business loans than are charged by private lenders. Business operators with access to conventional financing are likely to seek money from these sources. Competition between MBDCs and private lenders seems unlikely. Importantly, referrals by private lenders and "word of mouth" are the most productive sources of MBDC clients.

3. PROVIDING ENTREPRENEURIAL TRAINING AND BUSINESS ASSISTANCE TO INEXPERIENCED INDIVIDUALS STARTING NEW VENTURES

3a. Serving Entrepreneurs without Prior Business Experience

Most Microbusiness loan recipients have no prior experience owning and operating their own businesses (based on survey of Microbusiness operators).

- 69 percent of Microbusiness loan recipients had no prior experience owning and operating their own businesses.

- many, 67 percent, of the entrepreneurs did have prior work experience in the type of business they now own.

3b. Serving as Information Source for Persons Starting a New Businesses

The survey of Microbusiness owners inquired as to where people first went to find information about starting their own businesses. Microbusiness Development Corporations and personal friends and relatives are the most frequently contacted resources for initial information about starting a business. The most frequently mentioned information sources are listed below:

- Local Microbusiness Development Corporations (44%).
- Friends and relatives (44%).
- Small Business Development Centers (24%).
- Library books and publications (23%).
- Local Chambers of Commerce (16%).

Business operators were also asked to identify kinds of technical assistance they needed when they were planning their businesses. The most frequently identified technical assistance needs (during business planning) are listed below:

- help with Business Plan development (66%).
- help with loan applications/packaging (54%).
- estimating cash flows (53%).
- business record keeping/bookkeeping (50%).
- estimating business operations costs (40%).

A BUSINESS DEVELOPMENT PLAN is a prerequisite for receiving a loan from the Montana Microbusiness Loan Program. In most instances, MBDC staff directly assist business owners in formulating their plan. A clear majority (71%) of Microbusiness owners identified the process of formulating a BUSINESS DEVELOPMENT PLAN to be Very Worthwhile or Worthwhile. Only a small share of businesses owners felt formulation of a BUSINESS PLAN was Not Worthwhile.

- 42% of Microbusiness operators felt formulating a BUSINESS DEVELOPMENT PLAN was Very Worthwhile.

- 29% felt formulating a BUSINESS DEVELOPMENT PLAN was Worthwhile.

- 7% felt formulating a BUSINESS DEVELOPMENT PLAN was Not Worthwhile.

Business owners also were asked to identify which information resources they found to be helpful (and not helpful) when they were planning their new business. Over 60 percent of business owners identified MBDCs as being helpful. The business assistance resources most frequently identified as being helpful are listed below:

- Local Microbusiness Development Corporation (63%).
- Books and publications (51%).
- Friends and relatives/ non-business owners (33%).
- Friends and relatives who run their own business (29%).
- Small Business Development Centers-Mt. DOC (29%).
- Bus. Consultants (lawyers, accountants, etc.)(29%).

Business owners also were asked if they received technical help from their MBDC after their businesses were in operation. Seventy-five percent of owners indicated they received post-loan technical help from MBDC staff. Over half of business owners indicated they continue to discuss business matters with MBDC staff one or more times a month. The most frequent business topics discussed with MBDC staff pertain to business accounting, business record keeping, and cash flow management. The most frequent topics of ongoing consultation are listed below:

- accounting/business record keeping/cash flow management(52%).
- improving the marketing/sales of business product (28%).
- borrowing funds from private lenders/ refinancing debt (23%).
- pricing products and services (16%).

4. JOB CREATION AND RETENTION

A legislative expectation for the Microbusiness Program is jobs creation and retention.

4a. Employment by Microbusinesses

Estimates of employment at loan application:

In their loan applications, Microbusiness owners are asked to estimate the number of Full-Time-Equivalent (FTE) jobs to be supported by their businesses. Based on the applicants of surviving businesses 325 Full-Time-Equivalent jobs are supported by businesses receiving Microbusiness loans in the fall of 1994. Loan application job creation and retention estimates are listed below.

- Jobs Created = 196 FTEs
- Jobs Retained = 129 FTEs

Results of Survey of Microbusiness owners:

Job creation/retention estimates submitted during loan applications corroborate reasonably well with results of this project's survey of Microbusiness operators. Based on survey results, an estimated 340 persons were full- or part-time paid employees (including owners) of Montana Microbusinesses in the fall of 1994. An estimated additional 54 persons were unpaid workers (unpaid workers include businesses owners, and owner friends and family). Unpaid business owners and other unpaid workers will eventually become paid employees where business are successful.

Microbusinesses businesses averaged 2.25 paid employees. When adjustments are made for part-time employees, the businesses supported 270 FTEs. If unpaid workers are counted as half-time workers, 326 FTEs were supported by Microbusinesses. The average number of full-time, part-time, and unpaid employees is provided below (employment numbers include business operators).

- Microbusinesses average 1.34 full-time employees.
- Microbusinesses average .91 part-time employees.
- Microbusinesses average 0.36 non-paid workers

Again, 70 percent of Microbusiness owners indicated they would not have been able to "open their business" or "stay in business" without a Microbusiness loan. In these instances, Microbusiness loans were critical to job creation.

Business operators were also asked whether or not they would have been able to employ as many people if they had not received a Microbusiness loan. Without their loan, most Microbusinesses would employ fewer people.

- 14% of Microbusinesses with employees said they would employ fewer people.

- 49% of Microbusinesses with employees said they would have no employees.

4b. Ratio of Dollars Loaned to Jobs Created

An expectation for the program was that Microbusiness loans would create about one job per $5,000 loaned out. The ratio of dollars loaned-to-jobs supported (jobs created or retained) approaches the program objective. In most instances, capital obtained by Microbusiness loans are supplemented by the personal funds of the business owner, investor funds, and/or other loans. Ratios of jobs to MBDC loans benefits from other funds invested in the business.

Based on MBDC reports to DOC:

- 1994 Microbusinesses are supporting 1 FTE per $5,700 loaned out.

Based on results of the survey of business operators:

- Microbusinesses are supporting 1 paid job (full-time or part-time) per $6,300 loaned out.
- if the number of employees is adjusted for full-time equivalencies (FTEs), the program is averaging about 1 paid job per $6,900 loaned out.
- in addition, if unpaid workers are treated as half-time employees the ratio is 1 FTE job per $5,700.

4c. Job Creation and Job Retention by MBDC

Based on employment estimates provided by Microbusinesses at the time they received their loans, MBDCs at Havre, Billings, Bozeman, Helena, and Missoula have been most effective at creating and retaining jobs.

Table II-7
Jobs Created and Jobs Retained
Business Employment Estimates At Time of Loan

	Jobs Created	Jobs Retained	Total Jobs
Billings	32	15	47
Bozeman	25	14	39
Butte	9	14	23
Glendive	3	1	4
Great Falls	6	0	6
Havre	40	34	74
Helena	25	13	38
Kalispell	8	14	22
Lewistown	14	8	22
Malta-Wolf Point	12	4	16
Missoula	23	12	35
Statewide	0	0	0
TOTALS	**196**	**129**	**325**

5. BUSINESS PROFITABILITY & EMPLOYEE EARNINGS

Only about half (54%) of business owners are paying themselves a wage/salary out of business revenues. During initial years of a business's operation it is common for business operators to limit their personal draw and to use part-time employees and volunteers. In early years of the Microbusiness Loan Program, the personal income benefits accruing to business owners are slight.

5a. Business Profitability

Business profitability is the key to significant earnings creation for business owners. Less than 40 percent of Microbusiness owners are confident their business will show a profit in 1994.

- 39% of Microbusiness operators expect their business to show a profit in 1994.
- 43% of Microbusiness operators do not expect their business to show a profit in 1994.
- 19% of Microbusiness operators are not sure whether or not their businesses will show a profit in 1994.

5b. Earnings Levels for Business Operators

Based on survey results, only about 11 percent of Microbusiness owners expect earnings in excess $15,000 in 1994.

- 36% of business owners expect to make no draw (take home) or to draw less than $1,000 from their business in 1994.
- 25% of business owners expect to draw (earn) from $1,000 to $4,999 from their businesses in 1994.
- 27% of business owners expect to draw (earn) from $5,000 to $14,999 from their businesses in 1994.
- 9% of business owners expect to draw (earn) from $15,000 to $24,999 from their businesses in 1994.
- 2% of business owners expect to draw (earn) from $25,000 or more from their businesses in 1994.

5c. Earnings Creation for Microbusiness Employees

No data was collected on earnings for Microbusiness employees. Given the low level of earnings for Microbusiness owners, and the concentration of businesses in the retail and service sectors; earnings by employees can be expected to be modest.

6. CONTRIBUTING TO ECONOMIC DEVELOPMENT

The following discussion focuses on Microbusinesses which export goods and services to outside economies, and Microbusinesses which enhance the local and statewide economies by providing goods and services which were previously purchased from non-local or out-of-state suppliers.

6a. Exporting Goods and Services

One way to assess Microbusiness contributions to state and local economic development is to measure to what extent a business sells its product or service outside of its local economy (to non-local travelers, other non-local residents and businesses, and state and federal agencies). In theory, the sale of goods and services to out-of-state or non-local businesses, residents, and governments, brings outside money into a state or local economy, which stimulates economic growth. Businesses which sell products and services to out-of-state residents and businesses and federal government agencies contribute to growth in the statewide economy. Businesses which sell to people and entities outside of their area economy stimulate local economic growth.

Survey results indicate that a small portion of Microbusinesses are "basic industry" type businesses (export goods and services to outside of their local economies). About three-out of four of Montana's Microbusinesses cater mainly to residents and businesses in their immediate areas; thus making limited contribution to statewide or local economic growth.

TABLE II-8
Portion of Microbusiness's Catering to Non-Local Customers

	Main Customers	Occasional Customers
non-local travelers	12%	35%
non-local residents & businesspersons	13%	16%
state and federal agencies	4%	9%
non-local businesses	10%	16%

6b. Filling Voids in Local and Statewide Economies

Another way in which Microbusinesses can contribute to state or local economic development is by providing goods and services which previously were purchased from outside of area economies. By reducing the leakage of state or local money to outside economies. Microbusinesses development can extend circulation of dollars within Montana economies; thus enhancing economic multiplier effects and creating additional jobs and earnings for area residents.

A small share of Microbusinesses are competing with non-local businesses (businesses elsewhere in Montana); thus are contributing to expansion of their respective local economies. Likewise, a small portion of Microbusinesses are competing mainly with out-of-state businesses. To the extent that these businesses can reduce out-of-state expenditures (reduce export of personal and business capital, and/or increase state and local value added on goods and services produced within Montana); they contribute to statewide and local economic growth. Again the majority of Microbusinesses are mainly competing with other businesses in their area.

TABLE II-9
Location of Business's Competitors

	Main Competitors	Occasional Competitors
businesses elsewhere in Montana	13%	13%
businesses outside of Montanan	15%	4%

The above discussions do not address potential benefits to economic efficiency resulting from qualitative improvements in products and services or the economic benefits attributable to price competition.

7. SERVING TARGETED POPULATIONS

7a. Distribution of Microbusiness Loans Among Population Groups

Another expectation for the program was that it would foster entrepreneurship among special population groups: specifically, low income persons; women; and minorities. Of the 187 business loans made funded by the Microbusiness Finance Program:

- 36% Microbusiness loans were to low income persons.
- 60% of loans were for businesses owned by women (this total includes male female partnerships)
- 44% of loans were to businesses operated exclusively by women.
- 15% were to businesses operated by minorities.
- 16% of loans were to male-female partnerships.

The majority of Microbusiness clients are women. Women account for half or more of loan recipients at all but 2 MBDCs. Microbusiness Development Corporations located in HRDCs have generally been more successful in recruiting entrepreneurs from low income populations. MBDCs in economic development agencies have attracted the highest portion of businesses owned by persons not in targeted populations (middle-income male Caucasians).

TABLE II-10
Number of Microbusinesses Owned by Members of Targeted Populations by MBDC

	Low Income	Women*	Minorities	Male-Female Partnerships
Billings	7	7	3	0
Bozeman	9	11	4	4
Butte	1	2	0	1
Glendive	3	2	1	0
Great Falls	4	6	1	1
Havre	8	20	4	14
Helena	7	17	2	0
Kalispell	6	10	1	5
Lewistown	3	6	0	1
Malta-Wolf Point	1	3	5	2
Missoula	13	18	4	0
Statewide	0	0	0	0
Totals	62	102	25	28
Percent of Loans	36%	60%	15%	16%

* includes male-female partnerships

8. REDUCTIONS IN STATE PUBLIC ASSISTANCE PAYMENTS

A long-range goal for the program is to reduced the public assistance payments made by the State of Montana. The goal will be achieved if the program is successful in fostering employment and improved earnings for persons currently receiving public assistance.

Microbusiness loans have not resulted in substantive movement off public assistance. However, it is too early to measure effects of the program on state public assistance costs. Only a few Microbusinesses are currently generating substantial earnings for their owners. Until Microbusinesses businesses become more able to support owner earnings, the program will have little effect on state social service costs.

8a. Clients Receiving Public Assistance

Forty percent of program low recipients are classified as low income persons. MBDC staff observe that many of the Microbusiness operators who are eligible to receive public assistance (low income persons) do not participate in the assistance programs.

The Montana Department of Social and Rehabilitation Services was asked to identify the number Microbusiness clients that were receiving some type of assistance from the state. SRS is expected to provide this information in early 1995. The personal circumstances of low income business operators often make it difficult for rapid transition from public assistance to self-sufficiency. There is some anecdotal evidence that a few Microbusiness borrowers have been able to discontinue or reduce the amount of their public assistance payments.

8b. Reducing Unemployment and Underemployment

Based on survey results, 16 percent of Microbusiness owners were not working at the time they started their Microbusiness. Another 19 percent of owners identified the need to find a better job as a "main reason" for starting their own business.

9. LONG-TERM SELF-SUFFICIENCY FOR MICROBUSINESS DEVELOPMENT CORPORATIONS

An expectation for the Microbusiness Loan Program was that it could eventually become financially self-sustaining. Interest payments by MBDCs to the Department of Commerce were expected to cover state costs of administering the Microbusiness Finance Program. The spread (net interest income) between the interest rate charged to MBDCs by the state, and interest rates charged to Microbusiness borrowers was expected to fund nearly all the costs of regional administration of the program. MBDC income from fees for services provided to Microbusiness clients was not expected to be a major source of program income.

TABLE II-11 displays expenses and interest earnings of DOC and the combined expenses and net interest earnings of MBDCs in FY 1993-1994.

TABLE II-11
Estimated Program Expenses and Interest Earnings
Montana Department of Commerce
FY 1993-1994

	Program Expenses	Interest Earnings
Dept. of Commerce	$ 80,000	$ 105,625
MBDCs	$ 456,000	$ 104,000 1/

1/ displays estimated net interest earnings (Earnings income from outstanding loans plus passive interest on unloaned principle, less interest payments to state).

In FY 1993-94, interest earnings resulting from the MBDC payments to the Department of Commerce exceeded the DOC's costs for administering the Microbusiness Program. Excess interest earnings were used to repay a $20,000 administrative loan from the previous year, and fund a state Loan Loss Reserve Account. Based on FY 1993-94, it appears that interests earnings will be sufficient to cover the state's costs incurred in administering the program.

In FY 1993-94, the net interest income accruing to the MBDCs fell far short of the funds needed to administer the program regionally. In FY 1993-94, annual operations costs for individual MBDCs ranged from $40,000 to $60,0000, and net interest earnings typically covered less than one-fourth of their the costs of operation. At only one MBDC, operated by Bear Paw Development Corporation in Havre, did interest earnings cover the local costs of administering the program.

During the initial years of the Microbusiness Finance Program, MBDC operations costs are being carried by grants, and being absorbed by parent organizations. It should be noted that several of the MBDCs were in early stages of operation. "On average," less than a third of available loan principal was loaned out during FY 1993-94. As a greater share of loan principal is borrowed from MBDCs, MBDC interest earnings will increase; however, it is doubtful that MBDC interest earnings will ever be sufficient to cover all, or nearly all, of the current level of costs being charged to the program.

In FY 1993-94, the MBDC operated by Bear Paw Development Corporation in Havre, was achieving self-sufficiency for its Microbusiness Loan Program. The Havre based MBDC benefitted from the marketing advantages and administrative economies resulting from being located within an established economic development organization. The Havre MBDC has been able to loan out a greater share of its loan fund principal than the other MBDCs. Havre also charges lower administrative costs to the program than some other MBDCs.

Table II-12 compares alternative interest earning scenarios for a hypothetical MBDC and DOC interest charges. Scenario 1, displays interest earnings and interest expenses for an MBDC seeded with $250,000 of Coal Trust capital and paying a 3.00 percent interest rate to the Department of Commerce. In this Baseline Scenario, the MBDC is assumed to achieve a 75 percent loan out rate, and realize $21,000 annual net interest earnings (if the MBDC achieved 100 percent loan out rate its net interest income would still only be $24,000). Again, MBDC annual operating costs are running at $40,000 to $60,000 a year, exclusive of loan losses. Based on current capitalization and DOC interest charges, self-sufficiency for this MBDC can only be achieved by only through dramatic cost cutting.

Table II-12

Annual MBDC Interest Earnings Estimates for Hypothetical MBDC
Based on Alternative Loan Fund Sizes and DOC Interest Charges

	Baseline Scenario 1	Lower Interest Scenario 2	Expanded Loan Fund Scenario 3	Lower Interest Rate & Expand Fund Scenario 4
BEGINNING FUNDS				
State Contribution to Principal	$250,000	$250,000	$500,000	$500,000
MBDC Match Percentage	16.7%	16.7%	16.7%	16.7%
MBDC Match	41,667	41,667	83,333	83,333
Total Program Capital:	$291,667	$291,667	$583,333	$583,333
PORTION OF AVAILABLE FUNDS LOANED OUT				
Net Principal Available for Lending	$291,667	$291,667	$583,333	$583,333
Percent of Principal Loaned	75.0%	75.0%	75.0%	75.0%
Average Amount of Outstanding Loans	$218,750	$218,750	$437,500	$437,500
MBDC INTEREST EARNINGS				
Average MBDC Interest Rate	11.5%	11.5%	11.5%	11.5%
Gross MBDC Interest Earnings on Loans	$25,156	$25,156	$50,312	$50,312
Interest Earnings Rates/Passive Investments	5.0%	5.0%	5.0%	5.0%
Passive Interest Earnings	3,646	3,646	7,292	7,292
	$28,802	$28,802	$57,604	$57,604
LESS INTEREST PAYMENTS TO DEPT. OF COMMERCE				
DOC Interest Charges to MBDCs	3.0%	1.5%	3.0%	1.5%
Sum MBDC Interest Payments to DOC:	$ 7,500	$ 3,750	$15,000	$ 7,500
SUMMARY MBDC INTEREST EARNINGS & ESTIMATED EXPENSES				
Aggregate MBDC Net Interest Earnings	$21,302	$25,052	$42,604	$50,104

Scenarios 2, 3, and 4 experiment with different combinations loan fund capitalization and DOC interest rates. Either option, doubling MBDC loan fund capital or more than halving DOC's interest rate, will produce increases in MBDC net interest earnings. Of the two options, doubling the size of the MBDCs loan fund will have the more positive effect, assuming that MBDCs are able to both loan out most (75%) of additional funds and maintain operations costs at approximately current levels. A combination of an expanded loan fund and lower DOC interest charges would have the most positive impact on MBDC self-sufficiency potential.

CHAPTER III
BENEFIT-COST ANALYSIS

A. INTRODUCTION

A Benefit-Cost Analysis is the public equivalent of a private profit and loss evaluation. It is designed to shed light on whether the benefits provided by a public sector program are great enough to justify the resources put into it. It is different than a private sector profit and loss evaluation because (a) it includes costs and benefits that accrue to different parties; and (b) it includes costs and benefits that may not accrue in monetary terms. Table III-1 summarizes the costs and benefits from the perspective of the various parties involved in microbusiness finance.

B. CAUTIONARY NOTE

As discussed below, a major portion of the benefits of the MBFP consists of the businesses established under it, together with the goods and services they provide to consumers and the income they provide to their owners and employees. A significant problem involved in quantifying the benefits of this program is that it is new. The oldest loans made under the program are now barely two years old; most of the loans are considerably younger. Further, tracking of the actual performance of borrowers is extremely spotty; only two MBDCs try to collect data on actual performance. New businesses are almost always a struggle, and even if data were available the track record thus far would not be a good indicator of future performance. It will be far easier to assess the performance of the MBFP after a few more years. For this study future performance had to be estimated using modeling and proxy information. Therefore this assessment must be viewed as indicative of the potential magnitude of benefits in relation to costs rather than an accurate assessment.

C. MEASUREMENT OF MICROBUSINESS BENEFITS

Businesses succeed only if they can serve the consuming public, by providing goods and services that give value to the public, and they can survive only if they provide goods that are worth more to the public than the goods cost to produce. A reasonable measure of the net benefit to society due to the businesses is the difference between the value of the goods and service to consumers and what is costs to produce the goods and services.

A second measure of interest is the value added by the businesses. Conceptually, value added is the difference between the price goods are sold at and the cost of materials and other non-labor inputs used in producing them. Value added is a measure of the income received in the local economy. A reasonable approximation of value added is business profits (income received by the business owners) plus the owner's draw, employee wages, and professional services hired by the business (income received by lawyers, accountants and business consultants).

A description of methodology for projecting profits and value added is included in the technical appendix.

D. DIFFERING PERSPECTIVES

Benefits and costs depend on the perspective from which they are viewed. Individual items may be benefits from one perspective and costs from another. Taxes, for example, are a cost to the person paying them and a benefit from the perspective of state government. A summary of benefit-cost perspectives on the MBFP follows:

1. STATE GOVERNMENT: The costs of the microbusiness finance program to state government are the interest lost by taking funds out of the Coal Tax trust fund, and the administrative costs of running the program out of the Department of Commerce. The financial returns to state government are interest payments from the MBDCs; increased personal and corporate income taxes paid by microbusiness owners and employees; and decreased general assistance payments as low income borrowers succeed in becoming self-sufficient. In addition, passive interest (STIP) is earned on grant funds while they are held by the state. Finally, federal and foundation grants received by state government are offset by grant pass-throughs to the MBDCs.

2. MBDCS: Costs to the MBDCs include interest payments to the Department of Commerce; administrative costs of providing pre-loan assistance to potential borrowers, making loans and managing the loan portfolio; the cost of providing technical assistance or ensuring its provision by others; and capital losses due to bad loans. On the benefit side are interest payments from borrowers and passive interest earnings from investment of the uncommitted portion of the loan fund; and foundation grants received directly or passed through by DOC. MBDCs may also receive funding from their parent HRDC or economic development agency.

3. MICROBUSINESS BORROWERS: Costs to borrowers include the interest payments to the MBDCs and other lenders, but also include all business costs (including opportunity costs such as the value of their own time). Benefits are the business revenues. The difference between costs and revenues is business profits. A broad measure of net benefits to the borrower would include accounting profits plus owner' draw. An additional, intangible benefit to borrowers is the skill obtained through TA and experience that provide additional long-term business opportunities.

4. SOCIETY AS A WHOLE: Costs to society include all the costs of operating the program regardless of who pays them: administrative costs at all levels; income foregone by pulling funds out of the Coal Tax trust fund; capital losses; and business costs of the borrowers. Costs to society are the costs to all parties: state government, MBDCs, borrowers and others. Benefits to society are the net value of the goods and services provided to consumers. They may also include, in a value added measure, wages and other payments in excess of what would have been earned in the absence of the business activity. Intangible costs may include environmental impacts of the microbusinesses; intangible benefits include the long-term implications of the entrepreneurial skills gained by the borrowers.

E. ESTIMATES OF COSTS AND BENEFITS

The elements of Table III-1 are described below. (See Appendix B for assumptions and methods.)

1. MONTANA COSTS AND BENEFITS

   - Opportunity cost of the loan funds $3.25 million was allocated from the Coal Tax trust fund by the 1991 Legislature, but funds were disbursed only as the MBDCs were certified by the Department of Commerce. Kalispell, Missoula, Bozeman, and Havre were certified in June, 1992 and each received $250 thousand in July of that year. Billings was certified in October, 1992 and received a $249 thousand loan. Lewistown received $171 thousand on certification in December, 1992. The other MBDCs were certified in June or July, 1993, when the remainder of the funds were allocated. The Trust Fund earned an average of 14.6 percent in

1992, 11.94 percent in 1993, and roughly 10 percent in 1994. The cumulative interest income foregone through October 1, 1994 is $684,803. (Note that all cumulated costs include societal interest at 7.43 percent. (This value derives from an assumed 4.3 percent real societal discount rate and an assumed 3 percent rate of inflation, and the expression (1+D) = (1+d)*(1+r), where D is the nominal societal discount rate, d is the real social discount rate, and r is the inflation rate.)

Table III-1

Costs and Benefits to Various Entities

Entity	Costs	Income or Benefits
State Government	Opportunity cost of loan funds	Interest income from MBDCs
	Administrative costs of program	Increased taxes from funded business
	Foundation grant pass-throughs	Foundation grants
		Decreased general assistance
MBDCs	Interest payments to State and other parties	Interest income from borrowers
	Administrative costs of MBDCs	Passive interest earnings
	Technical assistance costs	Foundation grants and parent contributions
	Capital writeoffs	
Borrowers	Interest payments to MBDC	Gross business income
	Fixed and variable business costs	Long-term increase in earning power due to training
	Reduced general assistance	Self-sufficiency (low-income)
	Taxes	
Society	Opportunity cost of loan funds	Value of goods and services to the public
	Administrative costs of state and MBDCs	Long-term value of training
	Business costs less interest	Self-sufficiency
	Capital writeoffs	
	Environmental costs	

- Administrative costs of the DOC MBFP Administrative costs of the Department of Commerce included in the benefit cost analysis are approximately $55,000 in FY 1992, $66,000 FY 1993, $80,000 in FY 1994 and $35,000 in the first quarter of FY 1995. The cumulative cost through October 1, 1994 is $263,923. Note that actual costs reported in Table II-1 are somewhat lower.

- Interest payments to DOC by the MBDCs The MBDCs paid 4 percent on their loans to DOC from inception until January 1, 1994. At that date the interest rate dropped to 3.25 percent. The cumulative value of payments (including compound interest) through October 1994 is $226,322.

- Grant pass-throughs DOC received a grant of $390,000 from the U. S. West Foundation Revive Program, which was allocated to each MBDC in the amount of $15,000 for the first year of operation, $10,000 for the second year, and $5,000 for the third year. An additional $25,000 that U.S. West Foundation gave DOC for evaluation was not included in this analysis, nor were the $350,000 JTPA grant or $125,000 SBA grant received after the end of the study period.

- Short-term passive interest earnings by DOC The cumulative value of STIP earnings on the U.S.West grant through October 1, 1994 is $11,120.

- Microbusiness benefits In general the businesses funded by the loan program are too new to have established good track records, and their actual performance has not been consistently tracked. In the absence of actual performance data their performance has been projected from the business plans and cash flow projections submitted with the loan applications, supplemented by considerable judgement and discussions with the MBDC loan officers. Further, future benefits have been limited to a six year horizon (the initial startup year plus five years of continued operation). The present value (as of October 1, 1994) of the profits of the businesses funded by Microbusiness loans is estimated to be $4,530,000. This amount includes significant losses projected for some borrowers, minor losses or profits for a significant number of others, and large gains for a minority of borrowers. This is consistent with the experience reported by the lending officers of the MBDCs, and is not inconsistent with the high failure rate widely reported for new startups. The present value of the Value Added produced by these businesses is estimated to be $16,530,000.

- State income tax revenues The present value of the corporate and personal income tax revenues generated as a result of the microbusiness loan program is estimated, (assuming a 5 percent average income tax rate applied to the estimate of future Value Added to be $919,000.

- Welfare Savings No estimate is available at present for reductions in public assistance attributable to the MBFP loans, so no welfare savings benefits are included here.

2. MBDC COSTS AND BENEFITS

- Interest payments to the Department of Commerce As of October 1, 1994 the cumulative value of interest payments by the MBDCs to DOC is $226,322.

- Administrative costs of the MBDCs Obtaining good estimates of the incremental costs of running the MBDC programs has been problematical, in part because the parent organizations have not always tracked costs in this way. We estimate that the cumulative administrative cost of the MBDCs through October 1, 1994 is $863,274, but caution that there is considerable uncertainty surrounding this estimate.

- Capital losses Loan writeoffs as of October 1, 1994 amount to about $81,000.

- Interest income from microbusiness borrowers The cumulative value of interest paid by borrowers through October 1, 1994 is $176,874.

- Passive interest earnings MBDCs earn passive interest on the portion of their loan funds not currently lent. The cumulative value of passive earnings through October 1, 1994 is $185,036.

- Foundation grants and parent agency contributions Grants and parent agency contributions are used to pay the operating costs of the MBDCs, and do not enter further into the benefit-cost calculation from the perspective of Montana or society.

- Intangibles No estimate is presented here of the monetary value of intangible benefits and costs. The evaluators believe that the intangible benefits of the creation of a pool of entrepreneurial expertise will provide a source of additional small business startups as long as the borrowers remain economically active, and that these startups will provide an indeterminate amount of benefits to Montana consumers in the future.

F. SUMMARY ESTIMATE OF NET BENEFITS OF THE PROGRAM

A Legislative review of the benefits and costs of the Microbusiness Development Program might focus on the financial costs and financial returns to state government. As stated above, such a narrow view of the benefits and costs to Montana would miss a major benefit of the loan program, which is the creation of business ventures that satisfy public demands for goods and services. It would also miss significant resources put into the program by others. Operating costs of the MBDCs and TA services provided by SBDCs and others, whether funded or in-kind, are crucial to the operation of the loan program. Whether they are funded either directly or via DOC pass-throughs of foundation or Federal grants, or by the parent HRDC or Economic Development Agency, or provided as in-kind services, they effectively leverage the state contribution and improve the benefits stemming from it.

Accordingly two perspectives are summarized here from the individual item cost and benefit estimates above. First, a "Montana" perspective counts the costs incurred by the state, ignoring leveraging from other sources. On the benefit side it counts tax revenue increases and welfare savings, but in addition includes the benefits provided by the microbusiness ventures to the public. (A variant uses an expanded measure of these benefits, that of "value added". This adds back in payments that expand economic activity in the state, including wage payments, owner's draw, and contracted services.

Second, a "societal" perspective is presented that counts other costs of the microbusiness program, such as the cost of operating the MBDCs, regardless of how the costs are funded or who bears them.

G. NET BENEFITS TO MONTANA OF THE MICROBUSINESS FINANCE PROGRAM

Net benefits to Montana are the sum of the present value of the microbusiness borrower profits, plus the net benefits to Montana state government. However some adjustments must be made to avoid double counting or other inconsistent treatment.

For example, interest payments by the microbusinesses are partially an offset to the income foregone by pulling the loan fund out of the Coal Tax trust fund, which is part of the costs to state government. To avoid double counting, business profits are adjusted by adding back in the borrower interest payments to the MBDCs.

Similarly, income tax revenues are benefits to state government, and they are costs to microbusinesses. Adding business profits to state government benefits properly accounts for business taxes. However personal income taxes are not costs to the microbusinesses but are a part of the income counted in Value Added. To avoid double counting these taxes they must be subtracted from the measure of Value Added attributed to the microbusiness program.

Table III-2

Summary of Costs and Benefits to Montana

Costs:	
Opportunity cost of loan fund	$684,803
DOC administrative cost	$263,923
Subtotal	$948,726
Less:	
Interest from MBDCs	-$226,322
STIP	-$11,120
Subtotal	-$237,442
Total cumulative cost, Oct 1994	$711,284
Benefits:	
Net business profits	$4,530,801
(Add back interest)	$176,874
Personal income taxes	$826,455
Reduction in general assistance	?
Total benefits	$5,534,130
Net benefit to Montana	$4,822,846
Alternative benefit measure:	
Net Value Added	$16,529,107
(Add back interest)	$176,874
Total benefits	$16,705,981
Net benefit to Montana	$15,994,697

H. NET BENEFITS TO SOCIETY OF THE MICROBUSINESS FINANCE PROGRAM

Benefits to society for this study are the same as those we have counted for Montana. The major difference between a Montana perspective and a societal one is that the costs incurred by parties other than state government must be counted. These include the administrative costs of the MBDCs, in-kind contributions of loan committees, advisory committees, and technical assistance donated by other organizations. Of these, monetary estimates are provided only for the MBDC administrative costs.

Table III-3

Summary of Costs and Benefits to Society

Costs:	
Net costs to Montana:	$711,284
Administrative costs of MBDCs	$863,274
Capital losses	$81,000
Total costs to society	$1,655,558
Benefits:	
Net business profits	$4,530,801
(Add back interest)	$176,874
Total benefits to society	$4,707,675
Net benefits to society	$3,052,117
Alternative benefit measure:	$16,705,981
Net benefits to society	$15,050,423

I. CONCLUSION

The estimates of the projected benefits of the microbusiness loan program presented here can only be viewed as illustrative. They must be viewed with skepticism for several reasons. First, the loans, and most of the businesses funded by them, are relatively new, and have not yet established track records.

Second, partly because the business are new and partly because actual financial performance records are unavailable, business performance was projected from the cash flow projections provided in loan applications. There is an unknown degree of over-optimism built into those applications.

To offset these problems the projections rely on the familiarity with the borrowers of the MBDC loan officers, and on the exercise of judgement and conservatism in projecting business performance. Nevertheless the findings must be viewed as shedding light on a qualitative question, rather than a quantitative one. That question is, is it reasonable to conclude that the microbusiness finance program will provide benefits in excess of its costs.

A conclusion of the third-party evaluation is that the answer to this question is yes. The reasons are as follows:

- On financial grounds alone, the authors project a positive balance for state government. The projected present value of increases in state income taxes from loans already granted ($826,000) exceeds the costs to state government of running the program ($711,000). While this conclusion is not very certain (because the estimate of income taxes is very uncertain) there are additional as yet unmeasured financial benefits in the form of reduced assistance and the taxes that will accrue from future business ventures.

- When the public benefits provided by the microbusinesses are included, the net benefits to Montana are clearly and significantly positive. Profits are an indicator of the difference between the value of goods and services to customers and the cost of providing them. By this measure the program provides over $4.8 million in net benefits. There is a great deal of room for error in the estimate of business profits without changing the conclusion that the program is a winner.

- When public benefits are measured by Value Added, which is more a measure of the contribution to economic activity in the state, the above conclusion is even greater. Net benefits by this measure are about $16.0 million greater than the costs to state government. The conclusion that benefits are positive can be viewed as a firm one.

- Because there are significant resources going into the program besides the costs to state government, it is good public policy to ensure that the benefits of the program warrant the full costs of running it. The U.S. West Foundation alone has put over $350,000 into the program, and other funds have come from other foundations, local agencies that provided matching funds for the loan fund, the parent agencies of the MBDCs, and many individuals and agencies that provide in-kind services. We estimate the total costs to society to be 2.3 times those of the state government alone ($1.66 million versus $711 thousand). Nevertheless, the estimated benefits are clearly and significantly larger that the costs to society. Total benefits almost $3.1 million greater than total costs when profits are used to measure business benefits, and almost $15.1 million when value added is used.

- There are additional, intangible benefits to the program that have not been measured in this analysis. Foremost among these is the creation of a pool of entrepreneurial experience. The experience of having run a small business will lead at least some of the current borrowers to search for opportunities and to start new small business ventures in the future regardless of the survival of the businesses funded under this program. This will provide benefits that are not captured in the analysis here.

- There are a number of areas where improvements can be made in the program. Costs can be reduced as the MBDCs accumulate experiences and become more efficient in their operations, more experienced in providing technical assistance and more selective about the clients they seek. On the other hand there are some issues, such as the lending rate, that must be dealt with if the program is to continue successfully. These factors have been extensively discussed in this report but have not been considered in the benefit-cost analysis. Addressing the issues will further improve the net benefits of the program and ensure it will continue to provide long-run benefits to Montana. This is an additional reason for optimism about a conclusion that the program is a good investment for Montana.

CHAPTER IV
ISSUES

A number of issues surfaced repeatedly during discussions between the evaluators and MBDC staffs and between the evaluators and Department of Commerce staff. These issues affect the operation of the program and such be addressed in determining the future of the program. A brief discussion of these issues may be useful.

ISSUE 1 — LENDING RATES

Establishing and maintaining sufficient volumes of lending appears to be the most pressing issue facing the Microbusiness Finance Program. The long-term success of the program depends on performance of all the MBDCs. Only 5 of the MBDCs are meeting the targets for outstanding loans provided for in their contracts with DOC. Achieving targeted loan-out rates is more difficult for MBDCs serving smaller markets; however, the vigorous lending by the Havre MBDC demonstrates that substantial demand for microbusiness-type loans does exist even in non-urban areas.

In the fall of 1994, program lending is 13 percent less than expected. Some of the newer MBDCs are making slow progress in coming up to speed; and, some of the older MBDCs, who previously established excellent lending records, have become increasingly inactive. The success of the program depends on the creation of successful microbusiness enterprises. Without effective marketing of microbusiness loans, the program will under-accomplish its economic and societal goals, and will become a financial burden for its state and local sponsors.

There are several explanations for why certain MBDC lending rates are not meeting expectations, but a key reason is that the program lacks significant incentives for aggressive marketing and lending by MBDCs. The Department of Commerce has provided pass-through administrative funding without regard to the level of effort of the MBDCs, and the loan funds were allocated with no clear or plausible disincentive to inaction.

By contrast the SBA loan guarantee program provides administrative funding only in proportion to the volume of lending. In fact, this is another part of the problem. The SBA funds are seen as competing funds by some of the MBDCs. They may ask why they should lend under the MBFP, which provides no funds, when lending under the SBA will yield administrative funding.

In fact the MBFP has provided considerable funding ($30,000 per MBDC), but this has been block funding, independent of the level of lending activity. Marginal administrative funding is zero. This incentive regime might encourage an MBDC to make only enough loans under the MBFP to ensure continued block funding from the Department of Commerce, while making all other loans under the SBA program. However this would not lead to outcomes consistent with the legislative goals for the microbusiness loan program.

DOC needs to revamp the incentives to the MBDCs. While incentive structures are unusual in state government, there is a variety of ways this could be done. Grant pass-through allocations could depend, in total or in part, on lending activity. Additional loan funds, if approved by the legislature, could be doled out to the MBDCs only as they are used, remaining in the Trust Fund until they are allocated. Inactivity could be cause for portions of the funds already allocated to revert to the Coal Tax Trust Fund

for reallocation to other more successful MBDCs. Finally, pay incentives could be built into the MBDC budgets to encourage aggressive marketing and lending by the MBDC loan officers.

Recommendations:

The Department of Commerce should institute incentive mechanisms that will reward MBDCs for high levels of prudent lending. There are a variety of ways this could be done. DOC could establish incentive procedures for any additional grant or loan funds to be provided to the MBDCs. Additional loan funds, if approved by the legislature, could be made available to the MBDCs only as they are used, remaining in the Trust Fund until they are allocated. Inactivity could be cause for portions of the loan funds already allocated to revert to the Coal Tax Trust Fund for reallocation to other more successful MBDCs. Grant pass-through allocations also could depend, in total or in part, on lending levels.

The profit incentive for making microbusiness loans would be increased if DOC is able to reduce interest rate it charges MBDCs for loan fund principal. DOC also could heighten the profit incentive by charging lower interest rates to MBDCs with higher lending volumes. Parent organizations could also build pay incentives into the MBDC budgets to encourage aggressive marketing by the MBDC loan officers. MBDCs and the DOC also could collaborate on implementation of statewide and regional marketing of the microbusiness loans.

ISSUE 2 — LONG-TERM SURVIVAL OF THE LOAN FUNDS

An expectation of the Legislature in allocating Coal Tax funds to the Microbusiness Finance Program was that MBDC loan funds would be self-perpetuating and would not be eroded by loan losses. Microbusiness loans, particularly for startups, carry greater risk than most other business loans. Interest rates paid by microbusiness borrowers, and therefore MBDC interest income, do not reflect loan risk. Some MBDCs already have experienced loan losses, without sufficient income or reserves to cover them.

All business loans carry risk, because of the uncertain environment in which business operate. Microbusiness loans may carry greater risk than other business loans for several reasons. First, the program targets borrowers who may have little or no business experience. Second, the maximum loan size and limits on the size of the businesses funded by the loans may result in undercapitalized businesses that are highly vulnerable to short-term fluctuations even if their long-term prospects are good.

The MBDCs are contractually obligated to maintain their loan funds, as DOC ultimately can demand repayment. Because the loans carry risk, it is likely that over time some of the business funded by the loans will fail, and some borrowers will default on their loans. The MBDCs do not appear to have sufficient income or reserves to accommodate losses and maintain the size of the loan fund over the long run. If cumulative losses are greater than the local match the remaining loan fund will be smaller than the amount loaned by DOC. There is unlikely to be any collateral to go after beyond the remaining funds. Even if there is sufficient collateral for a defaulted loan the costs of recovering it are significant and there may be other claimants in line such as employees and unpaid suppliers.

Prudent management of a microbusiness loan fund requires some procedure by which to rebuild the loan fund when the inevitable losses accrue. At a minimum it is essential for MBDCs to recognize the likelihood of losses in their cost accounting by setting aside a portion of accrued income to cover

expected losses and by promptly writing down bad loans. Given the income and cost levels of the MBDCs (discussed at length below under the issue of self-sufficiency) such a procedure will show continuous losses, and will do nothing to maintain the integrity of the loan fund. (It should also be noted that increasing the size of the loan fund, one of the proposed solutions to improve self-sufficiency, may not help very much with this loan loss problem as expected losses will go up with the portfolio, while raising the upper limit on loan size to $35,000, another self-sufficiency measure, may increase risk while reducing expected losses).

Some other mechanism is needed. There has been much discussion of loan loss reserve funds as such a mechanism, but loss reserves only move the problem back a step. Loss reserves can serve as a buffer for losses to smooth out their effect on cash flow, but they still must be restored after they are used to replenish a loan fund. Without sufficient income to cover losses it will not be possible to maintain loss reserve levels as they are depleted. MBDC interest earnings appear to be inadequate to serve as a primary source of MBDC operations funds and to adequately fund reserves; and, in the long-term provide for periodic replenishment of loan losses. The problem is insufficient income, not simply the need to establish reserves.

All of the MBDCs are attempting to establish Loan Loss Reserve Funds to protect their loan fund principal. Loss reserves can be used to restore loan fund principal in the event of defaulted loans. MBDC loan loss reserves currently average about 6 percent of outstanding loans. Only one MBDC has loan loss reserves of greater than 10 percent, and it is the only MBDC which feels its reserve fund is adequate. Most MBDCs lack the income resources necessary to build adequate reserve funds (a few MBDCs have been able to fund reserves from excess local matching moneys).

Recommendations:

DOC and the MBDCs should investigate alternatives that will ensure the integrity of the loan fund. DOC should investigate available options for assessing the risk inherent in individual loans and in portfolios, and work with the MBDCs to set acceptable risk levels for both. This may require the MBDC loan review boards to set policy on how much risk the MBDC should accept and what types of loans will be unacceptable. DOC and the MBDCs should evaluate means of managing and mitigating risk, such as risk pooling.

MBDCs need to be aware of the unfeigned status of their loan portfolios, so they can adequately accommodate losses in their lending and budgeting decisions. At a minimum it is essential for MBDCs to recognize loan losses in their cost accounting by promptly writing off bad loans. **The MBDCs should account clearly for expected losses and should promptly recognize bad loans.** Such a procedure will do nothing to maintain the integrity of the loan fund principal, but will help to prevent MBDC insolvencies. Loan losses must be considered in evaluations of self-sufficiency.

The DOC should solicit the input from the Microbusiness Advisory Council (MBAC), MBDCs, the private sector financial community and elsewhere to determine best methods for protecting MBFP loan fund principal against losses. If funding and maintaining a Loan Loss Reserve Fund is determined to be the best alternative, the DOC and MBDCs should work together to establish appropriate levels for the loss reserves and identifying means for building and sustaining these funds.

Most MBDCs favor using local matching monies to build loan loss reserves, in lieu of using these moneys to expand their loan fund's principal. Another alternative would be to simply fund the reserve with a portion of the loan fund principal (allocated proportionately between state and local contributions). The downside of both of these proposals is that they diminish the amount of total capital available for lending and reduce potential program benefits. Another approach for initially building loan loss reserves would be for MBDCs to allocate a high portion of near-term interest earnings to building-up loan loss reserves. This approach necessitates the substitution of grants and other funding to pay for MBDC operations costs. If funded loss reserves are part of the solution, consideration should be given to having the Board of Investments manage them.

A final alternative might be for the MBDCs to raise additional local funds to replenish loss reserves or simply to cover losses. However, most MBDCs have indicated it will be difficult or impossible to raise additional local match if the loan fund is increased, so it appears unlikely that local funds would be readily available to cover bad loans.

An alternative to MBDC maintained reserves would be for DOC to build and manage a central loss reserve fund on behalf of the MBDCs. This suggestion would require DOC to charge slightly higher interest rates to MBDCs, and would reduce MBDC interest earnings and accountability for their lending practices.

An innovative alternative for building and maintaining a loan loss fund is to set interest rates at levels that cover the risk of failure. Interest rates would need to set high enough that MBDC interest earnings could sufficiently fund loan loss accounts or directly replace losses to loan fund principal. Such risk-adjusted interest rates would cover losses over the long run, but they would probably be impossible for the microbusinesses to pay. DOC and/or the MBDCs would need to develop outside funding to "buy down" the interest rate to levels affordable to borrowers: whether foundation funding, legislative appropriation or local match, to buy down the interest rate to levels set in the legislation. Grant funding for interest buydowns might be more palatable to foundations or to local governments and funding organizations than grants to cover bad loans. Interest rates for low-income borrowers might be bought down by HRDC grants; funds to buy down the interest on loans with significant economic development promise might be sought from local development corporations. The buydown funds would then accumulate in the loss reserve fund.

In theory proper pricing would yield sufficient loss reserves. However, since accurate risk information is unavailable, errors on the high side would be necessary at first to avoid draining the loan funds. There does not appear to be any simple solution to this issue. It will be difficult to simply project loss rates. It will be more difficult if not impossible to estimate the risk on individual loans in order to set risk-adjusted interest rates. However it may be possible to set broad risk categories, and if done properly this should return sufficient funds to cover losses. MBDCs are beginning to adopt Helena's risk rating system.

In lieu of funding a loan loss reserve, MBDCs should consider reinvesting earnings and other income to build-up their loan fund's principal. A well managed MBDC should be able to profit more from interest earnings on the additional microbusiness loans than from earnings on a reserve fund's passive investments. The latter approach also would expand program benefits by providing additional lending capital. In this approach, coal tax funds would be protected only if MBDCs maintained a high rate of prudent lending. In the absence of a tangible (funded) loan loss reserve, forthright accounting of loans becomes critical.

ISSUE 3 — SELF-SUFFICIENCY

MBDCs were not expected to be financially self-sufficient in initial years of program operation, but eventually interest earnings were to cover all or nearly all of MBDC administrative costs. MBDCs' interest earnings from microbusiness loans are developing about as expected, but are insufficient to cover the costs of regionally administering the program. (Original income projections were based on fewer MBDCs, each with a loan fund of $1.2 million. Original projections also anticipated much greater MBDC earnings from passive investments). Most MBDCs report annual operating costs in the range of $40,000 to $60,000. At current levels of loan fund capitalization, interest earnings on microbusiness loans are unlikely to cover even half of aggregate costs of MBDC operations. The issue of self-sufficiency appears foremost among the concerns raised by the MBDCs.

Interest income from borrowers and from passive investment of the loan fund varies as the loanout rate changes. If the fund were fully loaned at an average of 11.5 percent, interest earnings would be $435,000. However full loanout is unlikely in the near future; a reasonable loanout level might be 3/4, providing about $325,000 from borrowers and about $50,000 in passive interest. Closing and other fees provide a minor source of additional income.

The cost of running the MBDC programs is around $475,000 per year. In addition, DOC costs are about $90,000. This would leave a shortfall of almost $130,000 with full loanout, or around $240,000 at a 3/4 loanout rate. Shortfalls must be made up with grant funds or subsidies from MBDC parent organizations, or by cutting costs.

Since the program began there has been ample grant funding, and any shortfalls have been made up by the parent organizations out of other funding sources. There is concern that foundation funding for the MBFP, however generous it has been in the past, is an uncertain source over the long run. Parent HRDCs and economic development agencies have other, competing uses for their limited funds and may be unwilling to subsidize the microbusiness loan program indefinitely. Legislative appropriations appear unlikely in the face of promises that were made when the program was established and budget stringencies that are only going to increase. Therefore the continued existence of the MBDCs and the microbusiness loan program may require covering all operating expenses out of program earnings. While conventional banking programs are reasonably profitable, self-sufficiency of the MBDCs is hindered by a number of factors.

- The average loan size in the program is about $10,000. (This average includes a mix of $15-20,000 loans and $1-5000 loans.) The cost of processing a loan is not proportional to the size of the loan, so many small loans are more costly to administer than a few large loans.

- The programs are still ramping up, so the number of loans processed is greater than it will be when the programs are in equilibrium. However, even in equilibrium the number of clients assisted will be roughly twice as large as the number of loans made, simply because of the need to work with all clients to weed out those who will not qualify and because some will abandon their projects or find other funding sources on their own.

- Many of the clients need considerable assistance in preparing their proposals and training in business skills such as business management, accounting, taxation and marketing. Provisions of such services is a burden conventional banks do not face.

- The loan funds are relatively small but require minimum staff that could handle larger portfolios. Further, there is a wide range of staffing patterns among the MBDCs. Some run with a bare minimum of personnel, making use of staff from other agency functions. Others are more generously staffed, imposing a more difficult self-sufficiency task.

- There is a minimum burden imposed by the regional structure of the program, as there are 11 separate MBDC offices and staffs that must be supported by overall program earnings.

- The program funds the Department of Commerce MBFP staff through its interest payments; lower interest rates to the Department would provide a greater margin for the MBDCs. Expanding the size of the program might permit lowering the overhead rate if the MBFP staff did not need to increase proportionately.

Outside funding needs should diminish in a mature program where lending is equal to repayments. Further, all MBDCs (as well as the Department of Commerce) should ensure efficient operation and work to eliminate nonessential burdens on the program. However, there is no clear solution to the other factors. A larger minimum loan size would help but might conflict with program goals of serving the needs of small startup ventures. Fewer, larger loans might also increase portfolio risk, although some MBDC loan officers believe some loan risks would decline if the ventures were not undercapitalized, or that larger loans would mainly be used to finance expansions of existing, proven businesses. Eliminating training and assistance would either reduce the market for MBDC loans by limiting them to experienced clients or increase the risk of business failure and loan default by inadequately prepared borrowers. Larger loan funds would help those MBDCs that are constrained by the current fund size; Havre is the only MBDC in that category now. Lower interest charges by the state would help but with fixed fund size would only transfer the problem to the Department.

Self-sufficiency is a goal often discussed for the MBDCs, but the size of the loan fund, the number of regional MBDCs, staffing requirements, the maximum loan size, the need to provide technical assistance, and other competing goals make self-sufficiency unattainable. Grant funding was sought to help get the program started, and the U.S. West grant was crucial to the startup phase. Foundation funding, which has been of great help in running the program so far, is probably not a secure long-term source for operating revenues.

Recommendations:

Total self-sufficiency for the program appears to be an unattainable goal. However, because the benefits of the program extend beyond those accruing to borrowers, some

degree of long-term state funding is appropriate. **DOC and the MBDCs should select a reasonable target, e.g. to aim for loan earnings to cover the administrative costs of the program. That is, interest and fees paid by borrowers should ultimately cover the costs of making loans and managing the loan portfolio.** (The long-term portfolio costs include losses, so the earnings must be high enough to build and maintain adequate loan loss reserves.) DOC and the MBDCs should put effort into finding stable alternate long-term funding for assistance, technical support and loan loss risk. Such support might come from legislative economic development appropriations, Vo-Tech or university continuing education programs, or SBA or other federal business development programs. Foundation funding, which has been of great help in running the program so far, is probably not a secure long-term funding source.

REDUCING ADMINISTRATIVE COSTS OF THE MBDCs

The cost of operating the MBDC loan funds is intrinsic to the question of self-sufficiency. The ability to cover interest and administrative costs out of interest payments from borrowers is the essence of self-sufficiency, and the only options are bigger loan funds or higher interest costs to borrowers, on the one hand, and lower administrative costs or lower interest payments to the Department of Commerce, on the other.

There is considerable variety in the way costs are accounted for among the MBDCs. The most common involve either allocating a portion of the parent organization's overall costs to the MBDC, or simply reporting interest payments and expenditures charged to the U.S. West grant. Most MBDCs report costs in the range of $40-60 thousand per year.

In no case did an MBDC attempt to measure the incremental costs of running the microbusiness loan program. As a result the MBDC costs may look higher than they really are. An operating parent organization may incur little or no extra rent or overheads to run the program, compared with their costs without the program. Incremental staffing, particularly if they run other loan programs, should depend on loan volumes. In addition there would be incremental costs of reporting requirements, travel and phone. Without incremental cost information it is difficult to say whether the costs of running the program are high or low, or whether there are areas where costs could be reduced.

Recommendations:

> **MBDCs should collect incremental cost information in order to assess efficiency, evaluate the burden of reporting requirements, and to address the possibilities for self-sufficiency**. Incremental costs should be compared to the base costs of the parent organization without the loan program; the costs with the program but with no loan activity; and the costs with, say three and six loans per quarter.

CONSOLIDATION OF MBDCS

A discussion is provided below on the conflicts caused by multiple goals that have been established for the program. One such goal that is in immediate conflict with the search for self-sufficiency is regional equity. A desire to spread the benefits of the microbusiness loan program across the state is responsible for the existence of 12 regions, 11 active MBDCs, and one statewide MBDC. Each

MBDC has staffing, office and travel expenses. The MBDCs report costs that, for the most part, are $40-60,000 per year, or a total of over $0.5 million per year. This is part of the burden that self-sufficiency would require to be borne by interest earnings paid by borrowers and earned from passive investments.

Reducing the number of MBDCs would ease this burden. A complete reduction would centralize lending out of Helena or some other site, with extensive communication and travel requirements counting against the savings. A partial reduction would combine two or more MBDCs at a single site without trying to centralize the entire program, and additional travel and communication requirements might be tolerable. The lessening of geographic diversity would have to be judged against the net financial benefits. Any proposal to merge MBDCs would have to be judged on its merits, but in particular cases might prove beneficial. For example, an MBDC may be having a difficult time getting its lending off the ground and a neighboring MBDC could serve both regions. Alternately, an MBDC might not be living up to its contractual commitments and the Department of Commerce may consider looking for an alternate sponsor. **In such cases, DOC should consider the merits of merging regional MBDC responsibility.**

Recommendations provided under Issue 3 identify possible opportunities for reducing MBDC operating costs. Issue 4 addresses expansion of the program's loan fund, lowering of DOC interest charges to MBDCs, and increasing the maximum sizes of microbusiness loans. These issues also are highly pertinent to the long-term financial self-sufficiency of the MBDCs.

ISSUE 4 — EXPANDING LOAN FUND/INCREASING MAXIMUM LOAN SIZE

Given the current size of the loan fund ($3.25 million) and the regional nature of program implementation, self-sufficiency is a difficult if not impossible target. It has been proposed that the size of the loan fund be doubled. This would permit reducing the interest rate the MBDCs pay to DOC to around 1.5 percent, thereby increasing the interest margin and the net earnings of the MBDCs. Self-sufficiency would be a more attainable goal. Increasing the loan fund principal, raising the maximum loan size, and lowering the interest rate charged to MBDCs for microbusiness funds are the only ways the regional MBDC operations (as currently organized) will ever approach financial self-sufficiency.

INCREASING LOAN FUND/DECREASING MBDC INTEREST RATE TO DOC

There is a proposal before the 1995 Legislature to allocate another $3.25 million of Coal Tax funds to the Microbusiness Finance Program and allow MBDCs to make loans of up to $35,000. The proposal has a potential to significantly improve the self-sufficiency of MBDCs, expand business and job creation, and increase the social and tax revenue benefits of the program.

Increasing program lending capital will permit DOC to fund its operations with a much lower interest rate. The combined effect of expanded lending capital and a higher net interest earnings spread on loans should substantially increase MBDC profits. As the program matures, average annual interest earnings per MBDC should exceed $40,000 a year. Increasing the maximum loan size to $35,000 could provide start-up and expansion capital for slightly larger businesses. The economies of scale achieved in making larger loans also should help to make MBDCs more profitable.

The argument for expanding the size of the microbusiness loan fund appears more persuasive in the long run than the short run, particularly in light of the discussion of issue 1, the rate of lending. There is currently only one MBDC constrained by the size of its loan fund. Two others may reach that point in the near future. Additional loan fund allocations will increase passive earnings for the MBDCs even if it does not increase their lending. However taking money out of the Coal Tax Trust Fund, where it earns upwards of 10 percent, and moving it to the passive investments of the MBDCs earning 4-5 percent seems an inefficient way to improve self-sufficiency.

Several of the MBDCs are likely to have difficulty raising the $1 to $6 match required to receive additional funds.

INCREASING THE MAXIMUM LOAN SIZE

The costs of making loans and maintaining a loan portfolio are not proportional to the size of the loans. Existing legislation limits loans to $20,000 to a single borrower. However the average loan size is closer to $10,000, in part because of a number of smaller ($2,000 or less) loans. A larger average loan size would reduce costs, but there is resistance to dropping the smaller loans because they are particularly useful to some clients. Raising the loan ceiling would permit making some larger loans and would increase the average loan size. Also, loan officers report significant demand for loans larger than $20,000. This demand comes from existing borrowers who are undercapitalized with the current loan limit, and larger borrowers whose projects cannot be financed under current rules. Survey results are consistent with these claims.

There is a question as to whether MBDCs will be able to loan out an additional $3.25 million (current performance suggests that some MBDCs will have difficulty in lending the additional funds). MBDCs feel there is a viable market for $20,000 to $35,000 microbusiness loans, and the MBDCs ability to loan out additional funds will be enhanced by increasing the program's maximum loan size (MBDCs estimate they could make $2 million in $20,000-$35,000 loans in 1996).

Recommendations:

The Microbusiness Loan Fund should be enlarged. Larger loan funds would substantially improve the prospects for self-sufficiency for the MBDCs. However, program lending capital should only be increased if the Legislature allows MBDCs to make larger loans. Otherwise several MBDCs will have difficulty in marketing the additional funds.

Rather than immediately advancing MBDCs the full amount of enlarged loan principal, DOC should consider providing MBDCs with something similar to lines of credit. This proposal is intended to foster more aggressive marketing by MBDCs, and indirectly strengthen their financial self-sufficiency. An additional benefit of incremental allocation of additional loan funds is that local matching moneys can be developed in smaller amounts. The incremental allocation of new loan funds also will prolong state interest earnings from the Coal Trust. The Legislature also should consider reducing or eliminating matching requirements for second round loan funds.

The DOC should establish and enforce performance schedules for the lending of additional loan fund moneys. If an MBDC is unable to meet its agreed upon lending schedule, a portion of its unloaned principal would be made available for lending by other MBDCs. Increasing the

maximum loan size to $35,000, further reinforces the need for MBDCs to build adequate system for dealing with loan losses. MBDCs should be cautioned not to de-emphasize their smaller loan portfolio.

ISSUE 5 — COMPETING SOURCES OF FUNDS

Several of the MBDCs administer other sources of funds besides the Montana Microbusiness Finance Program funds. For example, several MBDCs administer SBA loan funds. Loan funds may soon become available from the Farmers' Home Administration (FmHA). These additional funds are clearly beneficial to the goals of the MBFP in that they can increase the amount of microbusiness development that takes place in the state. However, they also represent a challenge for the MBFP, because they may take MBDC resources away from the MBFP program. For example, WEDGO's loan effort this year has been almost entirely with SBA funds. (As of mid-October the only WEDGO MBFP loans in 1994 were three loans made in February; thirteen SBA loans were made between February and September.) This is a clear challenge to the legislative intent of the MBFP program, which was that the fund be used to make microbusiness loans and not sit idly in the bank with interest earnings used to pay the administrative costs on other loan funds. When and if the FmHA funds become available the challenge may increase.

Recommendations:

DOC should consider the degree to which parallel lending from alternate fund sources can strengthen or damage the purposes of the MBFP. DOC should consider making additional grant pass-throughs or additional loan fund allocations conditional on contract amendments that would constrain shifting resources to alternate lending sources. Such a constraint could involve a commitment by the MBDC not to take on outside funding sources until the MBDC fund was, for example, 80 percent loaned, and a commitment to maintain the lending rate of the MBFP at 80 percent or higher as long as the MBDC was administering a parallel loan fund. **DOC should also search for tools that would provide incentives for MBDCs to keep lending rates high even when alternate funding sources are attractive.**

ISSUE 6 — COMPETING GOALS OF THE MICROBUSINESS FINANCE PROGRAM

In discussions with the MBDC staffs it became clear that there are a number of goals for the program that are given different weights by the different participants in the program.

1. Provide access to loans in a size and to a community not served by conventional banks.

2. Help poor people escape poverty and dependence on public assistance with the income provided by their own businesses.

3. Help poor people escaped poverty by providing jobs in new and expanded small business.

4. Provide entrepreneurial opportunities to women and minorities.

5. Provide funding for new and expanding small businesses which, it has been claimed by David Birch and others, are responsible for most of the job growth and economic development in the US economy in recent years.

6. Hold down portfolio risk by avoiding risky loans, by insisting on adequate collateral and by strongly discouraging delinquency and restructuring of loans.

7. Strive towards a self-sufficient program.

8. Provide regional equity by having MBDCs that are responsible for lending located in 12 regions of the state (plus one statewide MBDC).

There are clear conflicts among these goals, and consequently they cannot all be met. Further they are not shared equally by all parties. Thus some MBDCs (the HRDCs) see low-income families as their target clientele and structure their programs toward recruiting and training borrowers in that category. Two programs are woman-oriented and focus their efforts on woman-owned and initiated proposals. They do not lend heavily to low-income clients. One program (Havre) is housed in an economic development agency, with a focus on projects that provide income and jobs in the community.

Recommendations:

The program thus far has avoided specifying the relative importance of these conflicting goals. Rather it has implicitly accepted whatever weights may determine the operating choices of the individual MBDCs. However the conflicts may increase in the future because of funding stringencies or competing demands to take over one or more of the MBDCs by other parties or by other MBDCs. **DOC should work with the MBDCs towards explicit clarification of the relative importance of the program goals.**

ISSUE 7 — JURISDICTIONAL ISSUES

The loan program sets up service territories for each MBDC, although up to 10 percent of loans can be made outside the territory. Some MBDCs indicated they would not object to another MBDC lending in their territory if they were consulted. There appears to be no support or enthusiasm for opening up to competition or for actively competing outside the service area.

The jurisdictional issue applies to funding as well. During the initial round of funding the MBDCs there were funds left over when several MBDCs could not raise sufficient match to cover the original allocation of $250,000. The excess funds were bid for by several others, and as a result the MBDC loans from the Department of Commerce now range in size from $171,000 (Lewistown) to $443,322 (Helena).

If additional loan funds are made available by the 1995 legislature a decision will have to be made on allocation: should the funds be reserved with an equal amount for each MBDC when it fully commits its current loan fund? Or should it be allocated on a first-come first-served basis? Or should the Department of Commerce simply ask for proposals?

If match funds are required as with earlier disbursements, those MBDCs established in the first year (Kalispell, Missoula, Bozeman, Havre, Billings and Lewistown) will have an immediate advantage. Because no restriction were placed on the use of the excess match funds when the match requirement was reduced from one-third to one-sixth, so the first MBDCs have excess match funds available.

Settling these jurisdictional issues means balancing regional equity and getting the most out of the program in terms of encouraging microbusiness activity. Holding funds for less-active MBDCs while others are fully loaned may miss numerous opportunities for additional loans that would provide program benefits during the holding period. Allocating loan funds to MBDCs that have immediate access to match funds but who are not aggressive lenders may similarly handicap the program in achieving program goals.

Recommendation:

DOC should decide, in advance of legislative decisions on increasing the loan fund, on the criteria that will be used to allocate funds to the MBDCs.

ISSUE 8 — OPPORTUNITIES TO SHARE RESOURCES

There may be some areas where resources could be used more efficiently by sharing particular resources. For example it is possible that two or more MBDCs could share the services of a loan officer, although savings would be at least partially offset by additional travel requirements. Tracking of loan performance might be done from Helena. Management of passive investments, including the loan loss reserve funds, as discussed above under issue 2, could also be done centrally. The Board of Investments would be an immediate choice to carry out this function.

Recommendation:

DOC and the MBDCs should evaluate the potential for sharing resources. DOC should explore the advantages and disadvantages of having the Board of Investments manage the MBDCs' passive investments.

ISSUE 9 — ASSISTANCE AND TECHNICAL SUPPORT

The evaluators believe that the provision of technical assistance and support to borrowers is one of the strengths of the program, and in particular one aspect of the program that provides benefits that will outlast the businesses funded under the program. Borrower response to the survey confirms this. It is important to provide the right components of training that meet the individual needs of borrower. It is also important to have that training provided by the right provider, in the right context. Alternative providers include MBDC staff, SBDC staff, Vo-Tech faculty, SCORE, and private providers. Assessment of the performance of alternate technical assistance providers was beyond the scope of this study.

Recommendation:

The Department of Commerce should design and conduct a performance review of technical assistance provided by the MBDCs and then evaluate alternative means of providing assistance. The MBFP should then recommend to the MBDCs the best methods. Further, efforts should be made to find alternate funding sources for assistance: provision by the Vo-Tech or adult education program could shift the funding burden to the local or statewide mill levy or to the University budget. Local chambers of commerce and local banks might also be potential sources of funding for borrower assistance programs.

ISSUE 10 — ADVANTAGES AND DISADVANTAGES OF ALTERNATE MBDC FORMS

There are four basic forms that the MBDCs take in Montana. The most common form is attached to a parent Human Resource Development Council (HRDC). HRDCs provide a variety of services to low-income clients, and the primary client group of HRDC-based MBDCs is the low income population. Bozeman, Billings, Great Falls, Kalispell, Glendive-Miles City, and Lewistown MBDCs are all housed in HRDCs. The second form is sponsorship by a woman's development organization. Missoula, Helena and the Statewide MBDCs take this form. The third form is a local economic development agency; Havre and Malta are representatives of this form. Finally, Butte represents a loan-guarantee program housed in a business incubator. Each of these forms has its own strengths and weaknesses.

The HRDCs appear to have a clear advantage attracting and serving low income borrowers. The HRDCs provide a variety of services to this group, gaining credibility and trust, and they are intimately familiar with the needs, abilities and weaknesses of their clients. They are less successful at attracting non-low-income borrowers and may face a stigma with this group. They may be hampered by organizational disinterest in serving middle or upper income borrowers because of a feeling that their resources are better used serving their target clients.

The womens' groups' major strength is in attracting and serving women borrowers. Most of Helena (Montana Women's Capital Fund)'s borrowers are women or firms with a woman partner. Helena and Missoula (Women's Economic Development Group) are both active and well organized, with extensive loan portfolios. Both have other sources of loan capital that may complement or compete with Microbusiness Loan Program funds. Missoula, for example, did not make any loans under the program in the second quarter of 1994 because SBA funds were cheaper and had to be used within a limited time. Helena and Missoula do not make many low-income loans, and they tend not to reach male borrowers very well (26 percent and 35 percent, respectively).

Havre (Bear Paw Development), housed in an economic development agency, is seen by the other MBDCs as the star of the program. Havre is the only MBDC that is fully loaned out. It operates with only .4 FTE staff, and benefits from the activities of its parent agency by loan referrals, training and staff sharing. However Havre does not do as well as the MBDCs at low-income lending (none of Havre's loans are in the two lowest income classes, but 33 percent of loan recipients have incomes in the $10-15,000 range), perhaps since service to the poor is not part of its parent agency mission.

There is a clear connection between the organizational structure of the MBDC and the weights placed on the various goals of the program. HRDCs focus on assisting low-income clients to achieve self-sufficiency; women's groups aim at helping women to overcome perceived barriers to credit access; economic development groups focus on employment goals and regional multiplier effects. It remains to be seen whether the successes outweigh the undervalued goals.

Recommendations:

It will be a challenge for the MBFP to determine the best balance among competing models for the MBDCs, and if it can do so, to find a way to turn that balance into reality. **The MBDCs should seek collaborative relationships with HRDCs, economic development agencies**, business incubators and women's development groups may lead toward the desired balance. Such relationships may be

fostered by membership on the MBDC Boards of Directors, by memoranda of understanding about channeling potential borrowers, and by contractual sharing of technical assistance resources, risk evaluation and portfolio management.

ISSUE 11 — DEALING WITH TROUBLED MBDCS

Questions have arisen about the ability or the will of some of the MBDCs to administer the program in accordance with program goals and contractual commitments. This issue is beginning to become worrisome, and DOC needs to develop clear policies and procedures for dealing with it.

There are two aspects to this problem. First, some of the newer and smaller MBDCs did not hit the ground running, and their lending has been slow to get started. It is not clear how rapidly they will develop or if they will achieve targeted loanout rates in the foreseeable future. The cause of the problem probably lies in lack of experience of program personnel, inadequate marketing of the loan program in their regions, and in some cases mistaken personnel decisions or mistaken lending decisions.

The second aspect of the problem is very different. Experienced MBDCs that have in the past established successful programs and high loanout rates, have now reduced the apparent effort at marketing and lending. The reason for this may be incentives for marketing SBA loans, or it may be a loss of interest in the loan program on the part of loan officers or other MBDC personnel.

Because the ability of the MBFP to deliver on legislative expectations depends on a successful loan effort, DOC need to monitor these problem MBDCs carefully. In some cases it may be possible to provide assistance and incentives to get the MBDC program back on track. In other cases it may be appropriate to decertify the MBDC and find another sponsor or merge the region with a neighboring, more successful and aggressive MBDC.

Recommendations:

DOC should establish criteria for dealing with troubled MBDCs, including the definition of trigger points that will lead to a troubled status, the procedures DOC will use to try to improve the performance of troubled MBDC, and the criteria for determining that an MBDC is beyond help and should be decertified.

DOC should also begin discussions with the troubled MBDCs to see if it can avert the need for decertification. In particular DOC should work with the MBDCs to ensure that program incentives are compatible with living up to program goals.

CHAPTER V
CONCLUSIONS AND RECOMMENDATIONS

The third-party evaluation draws the following conclusions from this study:

- The Microbusiness Finance Program has met the legislative goal of establishing regional Microbusiness Development Corporations around the state; it has distributed $3 million in loan funds to these corporations and they in turn have made almost $1.9 million in loans to microbusiness clients.

- Seven of the 12 corporations have met their contractual targets for the percent of their loan funds to be committed by certain dates. Four have fallen short by amounts varying from $21,000 to $61,000. One, the Statewide MBDC, has made no loans.

- The Microbusiness Finance Program is doing a good job of serving target populations (low-income, minorities and women). We estimate that 36 percent of loans have been made to low income clients; 60 percent of the loans have been made to women; and 15 percent have been made to minorities.

- The Microbusiness Finance Program and the businesses it has financed are too new for a firm evaluation of their competitive performance. Nevertheless, economic modeling of their financial performance indicates that from a Montana perspective the program has financed businesses that will produce, in present value terms, benefits of $5.5 million measured by the profits of microbusiness borrowers and increased state tax revenues. This is 7.9 times the present value of costs of $0.7 million. Net benefits are $4.8 million. If benefits are measured by Value Added, the businesses will produce $16.7 million in benefits, or $16.0 million in net benefits.

- From a societal perspective, counting the costs of the MBDCs as well as those of state government, the program has financed business that will produce $3.1 million in net benefits by a profit measure or $15.1 million in net benefits by a value added measure.

- While projections of program benefits are illustrative they are an indication that it is reasonable to conclude that the Microbusiness Finance Program is generating benefits that are greater than costs. It is a productive use of state funds and is an appropriate use of Coal Tax Trust Funds.

The evaluation also leads to the following recommendations:

Recommendation 1: The Department of Commerce should institute incentive mechanisms that will reward MBDCs for aggressive marketing and loan activity. Such mechanisms might include awarding grant pass-through funds and in proportion to lending activity; distribute any additional loan funds only upon specified proportions of existing loan funds being committed and there being evidence of significant new loan demand. They might also include proposing incentive pay plans for the MBDC loan officers.

Recommendation 2: The Department of Commerce should evaluate and put in place mechanisms to ensure the long-term integrity of the loan fund and to withstand expected losses. This evaluation should include a search for methods for assessing loan and portfolio risk, a search for sources to buy down risk-adjusted interest rates to borrowers, and the establishment of adequate loss reserves to buffer the funds from loan writeoffs. In addition, DOC should work with the MBDC loan review boards to set policy on

acceptable levels of loan and portfolio risk. Further, the MBDCs should account for expected losses and promptly recognize bad loans. Finally, MBDCs should consider reinvesting earnings and other income to build-up their loan fund's principal, in order to offset loan losses.

Recommendation 3: The Department of Commerce should study the prospects for self-sufficiency among the MBDCs. Total self-sufficiency for the program appears to be an unattainable goal. However, because the benefits of the program extend beyond those accruing to borrowers, some degree of long-term state funding is appropriate. DOC and the MBDCs should select a reasonable target, e.g. to aim for loan earnings to cover the administrative costs of the program. That is, interest and fees paid by borrowers should ultimately cover the costs of making loans and managing the loan portfolio. DOC and the MBDCs should put effort into finding stable alternate long-term funding for assistance, technical support and loan loss risk. MBDCs should collect incremental cost information in order to assess efficiency, evaluate the burden of reporting requirements, and to assess the requirements for self-sufficiency. Finally, DOC should consider the merits of merging regional MBDC responsibility in selected cases as appropriate.

Recommendation 4: DOC should proceed with efforts to enlarge the Microbusiness Loan Fund and to raise the size limit on microbusiness loans to $35,000. However, program lending capital should only be increased if the Legislature allows MBDCs to make larger loans. Otherwise several MBDCs will have difficulty in marketing the additional funds. Rather than immediately advancing MBDCs the full amount of enlarged loan principal, DOC should consider providing MBDCs with something similar to lines of credit, in order to maintain incentives for aggressive lending and to postpone loss of state interest earnings from the Coal Trust. DOC should establish and enforce performance schedules for the lending of additional loan fund moneys. If an MBDC is unable to meet its agreed upon lending schedule, a portion of its unloaned principal would be made available for lending by other MBDCs. DOC should also consider asking the Legislature to reduce or eliminate matching requirements for second round loan funds.

Recommendation 5: The Department of Commerce should consider the degree to which parallel lending from alternate fund sources can strengthen or damage the purposes of the MBFP. DOC should make additional grant pass-throughs or additional loan fund allocations conditional on contract amendments that would constrain shifting resources to alternate lending sources. Such a constraint could involve a commitment by the MBDC not to take on outside funding sources until the MBDC fund was, for example, 80 percent loaned, and a commitment to maintain the lending rate of the MBFP at 80 percent or higher as long as the MBDC was administering a parallel loan fund. DOC should also search for tools that would provide incentives for MBDCs to keep lending rates high even when alternate funding sources are attractive.

Recommendation 6: The Department of Commerce should institute an effort to clarify the relative importance of conflicting program goals. The program goal of establishing viable microbusinesses that would otherwise lack access to capital may conflict with the goals of serving target populations, and with the goal of providing regional equity. Similarly, the goal of self-sufficiency may conflict with the other goals because of the need to provide technical assistance and regional service. Clarification should come through discussions with the MBDCs, the Advisory Committee and the Legislature.

Recommendation 7: The Department of Commerce should decide, in advance of legislative decisions on increasing the loan fund, on the criteria that will be used to allocate funds to the MBDCs.

Recommendation 8: The Department of Commerce and the MBDCs should evaluate the potential for sharing resources among the MBDC, and should explore the advantages and disadvantages of having the Board of Investments manage the MBDCs' passive investments.

Recommendation 9: The Department of Commerce should design and conduct a performance review of technical assistance provided by the MBDCs and then evaluate alternative means of providing assistance. The MBFP should then recommend to the MBDCs the best methods. Efforts should be made to find alternate funding sources for assistance: provision by the Vo-Tech or adult education program could shift the funding burden to the local or statewide mill levy or to the University budget. Local chambers of commerce and local banks might also be potential sources of funding for borrower assistance programs.

Recommendation 10: The Department of Commerce and the MBDCs should explore cooperative arrangements among local agencies that would complement the work of the MBDCs. The MBDCs should seek collaborative relationships with HRDCs, economic development agencies, business incubators and women's development groups may lead toward the desired balance. Such relationships may be fostered by membership on the MBDC Boards of Directors, by memoranda of understanding about channeling potential borrowers, and by contractual sharing of technical assistance resources, risk evaluation and portfolio management.

Recommendation 11: The Department of Commerce should establish criteria for dealing with troubled MBDCs, including the definition of trigger points that will lead to a troubled status, the procedures DOC will use to try to improve the performance of troubled MBDC, and the criteria for determining that an MBDC is beyond help and should be decertified. DOC should also begin discussions with the troubled MBDCs to see if it can avert the need for decertification. In particular DOC should work with the MBDCs to ensure that program incentives are compatible with living up to program goals.

Recommendation 12: The Department of Commerce should institute a simple tracking mechanism for performance of the businesses funded by the program. The evaluation would have been simplified if business performance had been consistently tracked by the MBDCs. We recommend that the Department of Commerce, in conjunction with the MBDCs, should set standards for tracking the performance of microbusinesses that receive loans. The tracking should cover that actual financial performance of the business, job creation and preservation, assistance, and state tax collections. It is not necessary to gather a high level of detail on business expenditures, for example the level contained in the cash flow projections in the loan applications. It should also provide feedback for evaluating the effectiveness of training programs and of the loan program itself. Tracking data should be collected and maintained in machine readable form, e.g. a standard Lotus spreadsheet template. Tracking should be consistent among the MBDCs. It should be available to the Department of Commerce. Appendix C contains a sample tracking protocol.

APPENDIX A. MBDC LENDING HISTORIES

NUMBER OF LOANS MADE
BY FISCAL YEAR

	1992-93	1993-94	1st Qtr Only 1994-95	TOTALS
Billings	5	8	2	15
Bozeman	19	5	1	25
Butte	0	7	2	9
Glendive/Miles City	0	2	2	4
Great Falls	0	4	3	7
Havre	14	7	3	24
Helena	0	39	8	47
Kalispell	11	3	1	15
Lewistown	3	2	1	6
Malta-Wolf Point	0	3	2	5
Missoula	20	10	0	30
TOTAL LOANS MADE	**72**	**90**	**25**	**187**

NUMBER OF OUTSTANDING LOANS
BY FISCAL YEAR

	1992-93	1993-94	1st Qtr Only 1994-95
Billings	5	11	12
Bozeman	17	16	19
Butte	3	5	5
Glendive/Miles City	0	2	3
Great Falls	0	4	7
Havre	14	19	21
Helena	0	34	40
Kalispell	9	10	11
Lewistown	3	5	6
Malta-Wolf Point	0	3	5
Missoula	19	21	18
TOTAL LOANS MADE	**70**	**130**	**147**

NUMBER OF LOANS FULLY REPAID BY BORROWERS
BY FISCAL YEAR

	1992-93	1993-94	1st Quarter Only 1994-95	TOTALS
Billings	0	2	2	4
Bozeman	1	1	2	4
Butte	0	1	1	2
Glendive/Miles City	0	0	1	1
Great Falls	0	0	1	1
Havre	0	1	1	2
Helena	0	2	2	4
Kalispell	2	3	0	5
Lewistown	0	0	0	0
Malta-Wolf Point	0	0	0	0
Missoula	0	6	1	7
TOTAL LOANS REPAID	**3**	**16**	**11**	**30**

NUMBER OF DELINQUENT LOANS
BY FISCAL YEAR

	1992-93	1993-94	1st Qtr Only 1994-95	TOTALS
Billings	1	4	4	4
Bozeman	0	0	0	0
Butte	0	0	0	0
Glendive/Miles City	0	0	0	0
Great Falls	0	0	1	1
Havre	1	4	5	5
Helena	0	0	1	1
Kalispell	2	3	2	2
Lewistown	0	0	0	0
Malta-Wolf Point	0	0	2	2
Missoula	5	2	3	3
DELINQUENT LOANS	**9**	**13**	**18**	**18**

DEFAULTED LOANS WRITTEN OFF
BY FISCAL YEAR

	1992-93	1993-94	1st Qtr Only 1994-95	TOTALS
Billings	0	0	0	0
Bozeman	2	2	0	4
Butte	0	1	1	2
Glendive/Miles City	0	0	0	0
Great Falls	0	0	0	0
Havre	0	0	0	0
Helena	0	1	0	1
Kalispell	0	1	0	1
Lewistown	0	0	0	0
Malta-Wolf Point	0	0	0	0
Missoula	1	2	2	5
LOANS WRITTEN-OFF	**3**	**7**	**3**	**13**

DOLLAR VALUE OF LOANS

DOLLAR VALUE OF MICROBUSINESS LOANS
BY FISCAL YEAR

	1992-93	1993-94	1st Qtr Only 1994-95	TOTALS
Billings	$54,000	$108,794	$22,240	$185,034
Bozeman	226,184	44,000	10,357	280,541
Butte	0	100,735	38,000	138,735
Glendive/Miles City	0	14,002	21,893	35,895
Great Falls	0	36,300	42,500	78,800
Havre	222,890	72,775	27,044	322,709
Helena	0	268,654	34,176	302,830
Kalispell	120,997	38,036	0	159,033
Lewistown	40,000	25,200	20,000	85,200
Malta-Wolf Point	0	21,000	31,050	52,050
Missoula	143,945	34,361	0	178,306
TOTAL DOLLAR VALUE	**$808,016**	**$763,857**	**$247,260**	**$1,819,133**

DOLLAR VALUE OF OUTSTANDING LOANS
BY FISCAL YEAR

	1992-93	1993-94	1st Qtr Only 1994-95
Billings	$54,075	$106,635	$112,023
Bozeman	231,508	185,254	132,133
Butte	40,735	63,813	60,882
Glendive/Miles City	0	10,759	26,024
Great Falls	0	35,030	77,433
Havre	217,002	240,706	254,709
Helena	0	225,643	239,102
Kalispell	109,689	117,636	83,613
Lewistown	38,406	55,892	67,814
Malta-Wolf Point	0	21,000	51,365
Missoula	153,306	103,527	75,595
TOTAL LOANS MADE	**$844,721**	**$1,165,895**	**$1,180,893**

VALUE OF REPAID LOANS
BY FISCAL YEAR

	1992-93	1993-94	1st Qtr Only 1994-95	TOTALS
Billings	$0	$15,000	$12,776	$27,776
Bozeman	10,000	10,000	19,500	39,500
Butte	0	21,011	2,719	23,730
Glendive/Miles City	0	0	9,342	9,342
Great Falls	0	0	0	0
Havre	0	20,000	6,000	26,000
Helena	0	16,154	3,089	19,243
Kalispell	10,000	10,097	0	20,097
Lewistown	0	0	0	0
Malta-Wolf Point	0	0	0	0
Missoula	0	64,538	2,000	66,538
TOTAL LOANS REPAID	**$20,000**	**$156,800**	**$55,426**	**$232,226**

VALUE OF DELINQUENT LOANS
Final Quarter of Fiscal Year

	1992-93	1993-94	1st Qtr Only 1994-95	TOTALS
Billings	$0	$3,867	$1,549	$1,549
Bozeman	0	0	0	0
Butte	0	0	0	0
Glendive/Miles City	0	0	0	0
Great Falls	0	0	211	211
Havre	280	1,955	4,398	4,398
Helena	0	0	5,209	5,209
Kalispell	781	970	736	736
Lewistown	0	0	0	0
Malta-Wolf Point	0	0	56	56
Missoula	1,338	22,729	9,630	9,630
DELINQUENT LOANS	**$2,399**	**$29,521**	**$21,789**	**$21,789**

VALUE OF DEFAULTED LOANS WRITTEN OFF

	1992-93	1993-94	1st Qtr Only 1994-95	TOTALS
Billings	0	0	0	0
Bozeman	0	0	0	0
Butte	0	9,000	3,186	12,186
Glendive/Miles City	0	0	0	0
Great Falls	0	0	0	0
Havre	0	0	0	0
Helena	0	427	0	427
Kalispell	0	20,000	0	20,000
Lewistown	0	0	0	0
Malta-Wolf Point	0	0	0	0
Missoula	506	14,593	21,469	36,568
DEFAULTED LOANS	**$506**	**$44,020**	**$24,655**	**$69,181**

APPENDIX B. BENEFIT-COST ANALYSIS METHODOLOGICAL NOTES

1. Discount Rates: Financial information about historical costs of the program to the state and the MBDCs is in nominal dollars. That is, costs for 1993 are expressed in 1993 dollars, while costs in 1994 are expressed in 1994 dollars. To accumulate costs to October, 1994, a real (interest free) societal discount rate of 4.3 percent was assumed. This societal discount rate has been used elsewhere in Montana government analyses, particularly in the evaluation of energy projects. Inflation was assumed to be 3 percent per year. These assumptions result in a nominal societal discount rate of 7.43 percent. This rate was used to accumulate costs on a quarterly basis up to October, 1994 (the quarterly discount rate is $(1.0743)^{.25}$, or 1.81 percent). It was also used to discount the projected profits and Value Added of the microbusiness enterprises financed by the program.

2. Operating Costs of the Department of Commerce Microbusiness Finance Program: Costs of the program were provided by Lynn Robson of the Department of Commerce.

Table III-1
Operating Costs of the DOC MBFP

Quarter	Operating Costs	Esc. Rate to Oct 1994	Escalated Costs
Q91-3	$13,870	1.262	$17,507
Q91-4	$13,870	1.240	$17,196
Q92-1	$13,870	1.218	$16,891
Q92-2	$13,870	1.196	$16,591
Q92-3	$16,408	1.175	$19,279
Q92-4	$16,408	1.154	$18,937
Q93-1	$16,408	1.134	$18,601
Q93-2	$16,408	1.113	$18,270
Q93-3	$19,928	1.094	$21,795
Q93-4	$19,928	1.074	$21,408
Q94-1	$19,928	1.055	$21,028
Q94-2	$19,928	1.036	$20,655
Q94-3	$35,129	1.018	$35,764
	$235,953		**$263,923**

3. Opportunity Costs of the Loan Funds: Funds were only allocated out of the Coal Tax trust fund when the MBDCs were certified and came up with their matching funds. Table III-2 shows the dates and amounts allocated.

Table III-2

MBDC Loan Fund Allocations

MBDC	Group 1	Group 1	2nd Round
1. Kalispell	$250,000 8-92		
2. Missoula	$250,000 8-92		
3. Butte		$250,000 6-93	$ 77,226 6-93
4. Helena		$250,000 7-93	$193,322 7-93
5. Bozeman	$250,000 8-92		
6. Great Falls		$249,999 7-93	$169,453 7-93
7. Havre	$250,000 7-92		
8. Billings	$249,000 10-92		
9. Lewistown		$171,000 12-92	
10. Malta			$210,000 7-93
11. Glendive			$180,000 7-93

4. Cumulative Montana costs: Cumulative costs for Montana were estimated by breaking out costs for each Quarter since the inception of the program in the third quarter of 1991, and escalating them (at the societal discount rate) to October 1991.

TABLE III-3

Cumulative Costs of the Microbusiness Finance Program
Montana Perspective

Period	Total Disbursements From Coal Trust Fund	Cumulative Lending to MBDCs State	Quarterly Trust Fund foregone Earnings	Interest Paid by MBDCs	Interest Interest Cost to	Net Operating Costs	DOC STIP Income	DOC
Q91-3							$13,870	$779
Q91-4							$13,870	$779
Q92-1							$13,870	$779
Q92-2							$13,870	$779
Q92-3	$1,249,000	$1,249,000	0.0347	$43,286	$12,490	$30,796	$16,408	$931
Q92-4	$0	$1,249,000	0.0347	$43,286	$12,490	$30,796	$16,408	$931
Q93-1	$171,000	$1,420,000	0.0347	$49,212	$14,200	$35,012	$16,408	$931
Q93-2	$0	$1,420,000	0.0347	$49,212	$14,200	$35,012	$16,408	$931
Q93-3	$1,830,000	$3,250,000	0.0270	$87,710	$32,500	$55,210	$19,928	$557
Q93-4	$0	$3,250,000	0.0270	$87,710	$32,500	$55,210	$19,928	$557
Q94-1	$0	$3,250,000	0.0270	$87,710	$32,500	$55,210	$19,928	$557
Q94-2	$0	$3,250,000	0.0270	$87,710	$32,500	$55,210	$19,928	$557
Q94-3	$0	$3,250,000	0.0241	$78,369	$26,406	$51,963	$35,129	$649
	PV(10-1-94)			$664,803	$226,322	$438,481	$263,923	$11,120

5. Operating Costs of the MBDCs: Operating costs for the MBDCs came from a variety of sources, including the Quarterly Reports filed with the Department of Commerce, US West reports, Annual Reports of parent agencies, and personal communications. In each case what was sought was the incremental cost of operating the program, that is, the extra costs associated with running the program that would not be incurred in the absence of the program, regardless of the funding source. There was not consistent reporting by the MBDCs in this format. Some reported only the direct loan costs and interest payments to DOC, with no salary or office expense. In some cases staff and office expenses were billed to the US West grant, so the total cost was reported equal to the grant. Ideally costs would be reported in a format of the form fixed costs unrelated to loan activity (interest plus rent plus fixed staff costs), variable costs of assisting borrowers and potential borrowers (staff costs per client), and technical assistance costs per borrower. No MBDC reported costs in this format. Table III-4 below presents the operating costs used in the benefit-cost analysis.

TABLE III-4
Administrative Costs of the MBDCs

Quarter	MBDC Costs	Escalated Costs
Q92-3	$41,647	$48,934
Q92-4	$49,875	$57,561
Q93-1	$54,851	$62,180
Q93-2	$74,337	$82,773
Q93-3	$128,835	$140,908
Q93-4	$100,773	$108,259
Q94-1	$114,360	$120,674
Q94-2	$111,953	$116,037
Q94-3	$123,712	$125,948
Sum	$800,343	$863,274

6. Methodology for Projecting Microbusiness Profits and Value Added : Projection of the business performance of the microbusiness borrowers was a key part of the study reported on here. A number of major problems arise in making this projection. These include:

- This program is very new. The oldest loans made under the MBFP are less than two and a half years old. Most of the loans are considerably younger than that. These businesses have not established a track record.

- There is no consistent effort to track the on-going performance of borrowers. The MBDCs have collected little data with which to evaluate the performance of their borrowers.

- The only data relatively consistently available for the borrowers are the cash flow projections filed with loan applications. Even these are of mixed quality. The MBDCs consistently argue that their loans are predicated on the trustworthiness and business acumen of the borrower rather than on the business plan. However the business plan is the only basis available for projecting the magnitude of business success.

- The business plans were adapted for use in this study. They were corrected where necessary; in some cases cost elements had to be estimated and inserted into the cash flow projections. The element most often correct was depreciation. In some cases the owner's draw was modified to avoid negative cash flow, and in a number of cases overly optimistic sales were reduced by one-third or one-half.

- Performance had to be projected into the future. Loan officers, who are the persons most familiar with the borrowers' performance, were asked to rate each borrower on a 1 to 5 scale, where 3 indicates stagnant performance, 5 a booming performance and rapid growth and 1 indicates a business unlikely to survive.

- Accordingly, businesses rated 5 were assumed to have grown to 5/3 at the end of 5 years (10.76 percent per year). Business rated 4 by the loan officers were allowed to grow to 4/3 by the end of five years (5.92 percent per year). Businesses rated 2 were reduced to 2/3 their initial size after 5 years (-7.78 percent per year. Business rated 1 were reduced to 1/3 during the same period (-19.73 percent per year).

- A review of the projections for individual businesses shows that many businesses had insignificant or negative profits. The most significant portion of total estimated benefits derive from a minority of highly successful ventures. These findings are consistent with the experience reported by the loan officers indicating that many borrowers are struggling and are unable, at least in the early stages of their ventures, to draw a satisfactory living from the business. Nevertheless, even though business success cannot be predicted at this loan stage, the program portfolio appears to be likely to produce significant net benefits overall.

- Estimates of the overall generation of profits and value added by the businesses funded by Microbusiness Finance Program loans was scaled from estimates prepared for individual MBDC loan portfolios. Table III-5 presents the MBDC-specific benefit estimates and the scaling methodology.

TABLE III-5
Estimates of Profits and Value Added

Benefit scaling	07-Dec-94		
MBDC	Total loans	Profits	Value Added
Havre	$320,709	$339,519	$2,011,613
Missoula	$213,508	$670,830	$3,418,300
Bozeman	$365,895	$903,616	$1,857,344
Kalispell	$159,033		
Helena	$245,052	$840,675	$2,762,123
Butte	$106,993		
Gt Falls	$78,800		
Billings	$173,653		
Lewistown	$130,000		
Malta	$52,050		
Glendive	$37,860		
Total	$1,883,553	$2,754,640	$10,049,379
Total for subgroup	$1,145,164		
Pct of total	0.6080		
Scale factor	1.6448	$4,530,801	$16,529,107
Taxes @ 5% of Value Added			$826,455

APPENDIX C. PROPOSED TRACKING PROTOCOL

- The Department should develop software for use by the MBDCs to track the performance of microbusiness borrowers, and the MBDCs should collect consistent financial performance information on a regular basis. The information should be stored in machine-readable format, using DOC guidelines and software. For example, Lotus worksheet formats could be used, with one sheet per borrower and a template for financial information provided by DOC.

- Tracking should be done at least on a quarterly basis. MBDCs should retain the tracking information in their files and make the records available, with names purged but loan identifiers intact, to third-party evaluators for DOC.

- MBDCs should review the tracking information to identify needs for additional technical assistance or other loan counseling, to head off potential trouble for borrowers, and to identify sources of success and failure to improve loan marketing and program marketing in the future.

- DOC should periodically (every 2-5 years) conduct a review of the performance of the businesses in order to update the Legislature on net benefits to the state resulting from the MBFP.

Data collection: Performance tracking should be consistent with the framework presented in this report for measures of microbusiness benefits. That is, data collection should be able to identify business profits and value added, and provide data useful to the MBDC in assessing performance. The following list is offered as a starting point for discussion:

1a) Gross sales (cash)
1b) Gross sales (credit)

2) Cost of goods sold

3) Gross profit

4) Cost of labor - wages and salaries (not including payroll expense & taxes)

5) Other costs that may vary with sales or output level - e.g. inventory taxes (if inventories are driven by sales or output levels), payroll expense and payroll taxes

6) Office and travel expense (including insurance, supplies, utilities, and other fixed expenses that do not vary with sales or output levels

7) Payments of interest and principal on debt

8) Capital purchases

9) Depreciation of capital assets

10) Net profits

11) Business income taxes

12) Owner's draw

13) Reinvestment

14) Additional borrowing

MONTANA'S MICROBUSINESS FINANCE PROGRAM

THIRD PARTY EVALUATION

A SURVEY OF MICROBUSINESS CLIENTS

Prepared for the

US WEST Foundation
Montana Legislature
Montana Department of Commerce

MICROBUSINESS CLIENTS SURVEY
1. GENERAL BUSINESS CHARACTERISTICS

1. Please describe the type of businesses you operate:_____

2. What is/are your major product(s) or service(s)?_____

3. When did you establish/open your business?

Year: _____

1%	1970.00
1%	1980.00
1%	1982.00
1%	1983.00
1%	1984.00
1%	1985.00
1%	1986.00
3%	1987.00
1%	1988.00
3%	1989.00
6%	1990.00
3%	1991.00
14%	1992.00
21%	1993.00
37%	1994.00
1%	1995.00

Season: ___Winter ___Spring ___Summer ___Fall
33% 31% 19% 17%

4. Is your business open in September 1994?

☐ business is open 92% ☐ business is closed, but will reopen 4% ☐ business is closed and will not reopen* 3%

*(IF BUSINESS IS PERMANENTLY CLOSED PLEASE DO THE BEST YOU CAN WITH THE REMAINDER OF THE QUESTIONNAIRE)

5. Is your business a:

67%	___ sole proprietorship (you are the sole owner)
6%	___ family owned partnership or corporation
16%	___ non-family partnership (how many partners? _____)
10%	___ a corporation

6. How many people are currently paid employees at your business?
(INCLUDE YOURSELF)

Ave. Number of Employees per Business

1.33 _____full-time paid employees (work 35 or more hours a week)

.90 _____part-time paid employees (work less than 35 hours a week)

.39 _____non-paid workers (include volunteers)

7. How many hours do you work at your business during a typical week (include hours worked at home)?

3% ___1-10 hours per week
3% ___11-20 hours per week
6% ___21-30 hours per week
17% ___31-40 hours per week
25% ___41-50 hours per week
22% ___51-60 hours per week
25% ___61 or more hours per week

8. Do you have prior experience working in the type of business you now own? 67% ___Yes 33% ___No

9. Have you previously owned and operated a small business? 31% ___Yes 69% ___No

10. Was your business already in operation when you contacted your MICROBUSINESS DEVELOPMENT CORPORATION about a business loan?

23% ☐ business was in full operation
39% ☐ business was operating on a limited scale
39% ☐ business was not in operation

2. BUSINESS PLANNING

1. What are the main reasons you started your new business? (Check all responses that apply)

60% ___always wanted to own my own business

59% ___this type of business has been a long-time interest

16% ___needed a job (was not working)

39% ___was looking for a way to make more money

19% ___needed to find a better job

xxx ___other_____

2. Where did you <u>first go</u> to find information about starting your own business? (Check responses that apply)

16% ___Local Chamber of Commerce
6% ___private bank, savings and loan, other lender
6% ___Montana Department of Commerce (employee)
14% ___US Government (Small Business Administration)
24% ___Small Business Development Center (local)
44% ___Local MICROBUSINESS DEVELOPMENT CORPORATION*
14% ___ SCORE (Senior Corps of Retired Executives)
11% ___ Business Consultants(lawyers,accountants, etc.)
10% ___ Friends/relatives who run their own business
44% ___ Other friends and relatives
23% ___ Library books & publications
11% ___ Other books & publications
xxx ___ Other sources_____

PART A

3. What kinds of technical help did you need when you were planning your business?

Check here if you needed technical help

34% ☐ estimating business sales (cash receipts)
40% ☐ estimating business operation costs
53% ☐ estimating cash flow
50% ☐ business record keeping/bookkeeping
14% ☐ understanding interest rates
54% ☐ help with loan applications/packaging
10% ☐ hiring employees & employee regulations
31% ☐ how to price and market my product or service
66% ☐ help with BUSINESS PLAN preparation
xxx ☐ other_____

PART B

4. Were you able to find useful assistance in this business subject area?

	Yes	No
estimating business sales (cash receipts)	31% ___	7% ___
estimating business operation costs	41% ___	3% ___
estimating cash flow	44% ___	9% ___
business record keeping/bookkeeping	44% ___	7% ___
understanding interest rates	14% ___	4% ___
help with loan applications/packaging	53% ___	4% ___
hiring employees & employee regulations	9% ___	6% ___
how to price and market my product or service	31% ___	6% ___
help with BUSINESS PLAN preparation	57% ___	4% ___
other_____	xxx ___	xx ___

5. Which information resources did you find to be helpful in planning your business? (leave blank if you did not talk to group)

	Helpful	Not Helpful
Local Chamber of Commerce	11% ___	11% ___
private bank, savings and loan, other lender	19% ___	21% ___
Montana Department of Commerce (employee)	6% ___	9% ___
US Government (Small Business Administration)	11% ___	13% ___
Small Business Development Center (local)	29% ___	7% ___
Local MICROBUSINESS DEVELOPMENT CORPORATION*	63% ___	3% ___
SCORE (Senior Corps of Retired Executives)	14% ___	9% ___
Bus. Consultants (lawyers, accountants, etc.)	29% ___	4% ___
Friends/relatives who run their own business	29% ___	2% ___
Other friends and relatives	33% ___	3% ___
Books & publications	51% ___	0% ___
Other sources_____	XXX ___	XXX ___

6. Was the process of formulating a BUSINESS DEVELOPMENT PLAN a worthwhile use of your time?

Very Worthwhile ☐ 42% Worthwhile ☐ 29% Neutral/ Undecided ☐ 15% Not Worthwhile ☐ 7%

(Very Worthwhile + Worthwhile = 71%)

I have not developed a detailed" BUSINESS " PLAN ☐ 6%

7. Approximately how much <u>total money</u> was needed to open your business? Include personal investments, funds from other investors, and borrowed money. (Check the amount closest to the initial start-up capital needed)

4% ___ $1,000 or less	7% ___ $50,000
23% ___ $5,000	4% ___ $75,000
10% ___ $10,000	1% ___ $100,000
9% ___ $15,000	0% ___ $150,000
23% ___ $20,000	0% ___ $200,000
17% ___ $35,000	0% ___ other $_____

87% of businesses had start-up costs of $35,000 or less

8. Approximately what percent of the initial start-up costs were you (and partners) able to provide from personal funds?

___None	___10%	___25%	___38%	___50%	___63%	___75%	___90%	___All
23%	20%	19%	1%	22%	1%	6%	0%	1%

9. What percent of start-up funds were you able to raise from other <u>personal investors</u> (do not include moneys from partners, or borrowed from commercial and public lenders)?

___None	___10%	___20%	___25%	___50%	___75%	___90%	___All
78%	1%	1%	7%	3%	1%	0%	1%

<u>3. MICROBUSINESS BUSINESS LOAN PROCESS</u>

1. Where did you hear about the MICROBUSINESS LOAN PROGRAM? (Check all that apply)

19%___bank, savings and loan credit union	0%___Local Chamber of Commerce	14%___other small bus. owner
10%___Small Business Adm. (US Gov.)	17%___SBDC(Small Bus. Dev. Cent.)	29%___friend or relative
4%___Mont. Department of Commerce	10%___local Econ. Dev. Corp.	6%___social service agency
0%___SCORE (Senior Corps of Retired Exe.)	19%___read about in newspaper	4%___TV or radio
xxx___other_____		

2. Approximately how much money did your business borrow from the MICROBUSINESS LOAN PROGRAM? $_____

4%	$ 2,000	3%	$12,000
1%	2,500	4%	12,500
3%	3,000	14%	15,000
1%	3,600	3%	16,000
3%	4,500	3%	17,000
10%	5,000	1%	17,500
1%	5,200	4%	18,000
4%	6,500	1%	19,500
1%	7,500	16%	20,000
4%	8,000	1%	30,000
1%	8,500	1%	50,000
1%	9,000		
7%	10,000		

median loan value = $12,500

3. Did you borrow: ___too much money 1% ___about the right amount 57% ___not enough money 41%

4. What were the purposes of the MICROBUSINESS loan? (Check responses that apply)

	major use of loan	minor use of loan		major use of loan	minor use of loan
purchase equipment	62% ___	13%___	advertise business	24%___	16%___
purchase inventory/supplies	56% ___	9%___	pay for business training	3%___	4%___
meet payroll	10% ___	6%___	purchase needed services	3%___	4%___
improve business appearance	13% ___	10%___	consolidate existing payments	3%___	1%___
rent business location	17% ___	6%___	short-term operating funds	19%___	7%___
other_____	xxx ___	xxx___	other_____	xxx___	xxx___

5. How difficult is it for your business to keep up-to-date with its MICROBUSINESS LOAN payments?

13% ___almost every month it is difficult to make payment (or other regular payment period)

33% ___occasionally it is difficult to make loan payment

48% ___it is not difficult to keep up with loan payment

2% ☐ Check here if loan is paid off

6. Before obtaining your MICROBUSINESS LOAN did you talk to a commercial lender about a conventional bus. loan?

67% ___Yes
33% ___No

7. Did your business also borrow funds from:

☐ private commercial lenders 8% ☐ government agencies 3% ☐ personal investors 9% ☐ other_____ xxx

4. BUSINESS OPERATING CHARACTERISTICS

1. Which of the following are your main and occasional customers (Check only those responses that apply to your business)?

	Main Customers	Occasional Customers
residents (from your general area)	71%___	19%___
non-local tourists & other travelers	13%___	36%___
local businesses (from your general area)	27%___	13%___
local governments and schools	9%___	14%___
other non-local residents/business persons	17%___	17%___
state and federal gov. agencies	4%___	4%___
businesses elsewhere in Montana/out-of-state	13%___	16%___
other_____	xxx ___	xxx___

2. Who are your business's main competitors (Check only those responses that apply)?

	Main Competition	Occasional Competition
small businesses in my community/area	40%___	17%___
larger businesses in my community/area	19%___	9%___
businesses elsewhere in Montana	13%___	14%___
businesses outside of Montana	16%___	6%___

9% ☐ Check here if business has no competitors.

3. The following is a list of expense categories for small businesses. Which expenses do you find to be greater and less than anticipated (complete only for expense categories that apply to your business)?

	Much Greater Expense	Greater Expense	Expense About as Expected	Less Expense	Much Less Expense	Expense category left blank
rent of business space	6%	14%	39%	4%	3%	34%
payroll & commissions for workers	3%	11%	30%	4%	0%	54%
purchase of supplies (to make goods)	7%	14%	44%	1%	0%	33%
purchase of goods (to sell to customers)	4%	20%	37%	3%	0%	36%
advertising/ promotion/ marketing	14%	31%	29%	7%	0%	19%
car & truck expenses	7%	11%	46%	10%	4%	21%
equipment costs (rent or purchase)	7%	21%	44%	4%	0%	23%
equipment operation, maintenance, repair	10%	11%	33%	6%	3%	37%
insurance for business, self, & employees	9%	31%	30%	4%	1%	24%
telephone & utilities	10%	21%	50%	3%	0%	16%
payroll taxes, personal taxes	10%	19%	30%	1%	1%	39%
making loan(s) payments	9%	6%	60%	1%	24%	24%
other_____	___	___	___	___	___	

4. Are overall business expenses greater or less than expected?

9% ☐ Expenses are MUCH GREATER than expected

34% ☐ Expenses are GREATER than expected

56% ☐ Expenses are ABOUT THE SAME as expected

1% ☐ Expenses are LESS than expected

0% ☐ Expenses are MUCH LESS than expected

5. Are business sales (or gross receipts) about you expected them to be when you were planning your business?

1% ☐ Sales are MUCH GREATER than expected

21% ☐ Sales are GREATER than expected

27% ☐ Sales are ABOUT THE SAME as expected

36% ☐ Sales are LESS than expected

11% ☐ Sales are MUCH LESS than expected

5. WORKING WITH THE MBDC AFTER RECEIVING YOUR MICROBUSINESS LOAN

1. In recent months, how often have you talked to your MBDC about business matters? (Use most recent summer as example)

2%___almost every day	5%___once a week	30%___once a month	13%___almost never
0%___two or more times a week	15%___a few times a month	25%___once every few months	10%___never

2. Which of the following business topics have you discussed with the MBDC? (Check all responses that apply)

	Received Advise from MBDC Staff	Referred to Another Organization by MBDC Staff
accounting/business record keeping/cash flow management	52% ___	6% ___
improving the marketing/sales of my business product	28% ___	4% ___
personnel administration/hiring-firing workers/insurance	4% ___	0% ___
paying taxes: income, payroll, self-employment, other taxes	7% ___	4% ___
borrowing funds from private lenders/ refinancing debt	23% ___	1% ___
billing customers, collecting receivables	9% ___	1% ___
pricing products or services	16% ___	0% ___

3. If training is offered in the following subject areas, which training services will you use? (Check only services you will use)

	Classroom Sessions/ Seminars	One-on-One Work Sessions	Books and Publications	Training Videos	Blank
accounting/business record keeping/cash flow management	30%___	25%___	22%___	20%___	48%
improving the marketing/sales of my business product	28%___	33%___	19%___	17%___	45%
personnel administration/hiring-firing workers/insurance	16%___	9%___	7%___	4%___	74%
paying taxes: income, payroll, self-employment, other taxes	23%___	17%___	12%___	10%___	55%
borrowing funds from private lenders/ refinancing debt	16%___	20%___	12%_	7%___	62%
billing customers, collecting receivables	10%___	12%___	5%___	5%___	80%
pricing products or services	19%___	16%___	12%___	16%___	67%

4. Thinking about your most important training need, what is the most you would be willing to pay to receive the following types of training services?

	Nothing	$10	$15	$20	$25	$40	$50	$75	$100
Classroom session or seminar (half-day)	33%	4%	17%	1%	32%	4%	7%	—	—
One-on-One work sessions (two hours)	36%	3%	17%	0%	28%	6%	7%	1%	1%
Books, Publications (on business topic)	48%	22%	19%	0%	12%	—	—	—	—
Video Tapes (on business topic)	49%	26%	12%	1%	12%	—	—	—	—

6. THE IMPORTANCE OF THE MICROBUSINESS LOAN TO YOUR BUSINESS

The following series of questions may be a little difficult to complete. Your responses will be very important in determining whether the MICROBUSINESS LOAN PROGRAM should be continued and/or expanded. - Please do the best you can.

1. Please estimate what your business's total sales (or gross revenues) will be this year (1994). $_____

54% Sales = $25,000 and less

18% Sales = $25,001 to $50,000

9% Sales = $50,001 to $75,000

9% Sales = $75,001 to $100,000

11% Sales = greater than $100,000

Median Sales = $25,000

2. Do you expect your business to show a profit during the current business year (1994)?

___Yes 39% ___No 43% ___Not Sure 18%

3a. Are you able to pay yourself a wage/salary (or draw) out of business profits?

___Yes 54% ___No 30% ___Not Sure 16%

3b. If Yes, please estimate the personal earnings you will take home in 1994?

___less than $1,000 36% ___ $5,000-$14,999 27% ___$25,000 to $34,999 0% ___$45,000 to $59,999 0%

___$1,000 to $4,999 25% ___$15,000-$24,999 9% ___$35,000 to $44,999 2% ___$60,000 or more 0%

4. Are you earning as much money from your business as you expected?

Earning more than I expected ☐ 6% Earning about the same as I expected ☐ 34% Earning less than I expected ☐ 59%

5. As a result of starting your own business, has your personal income increased or decreased?

My income is much greater ☐ 8% My income is slightly greater ☐ 20% My income is about the same as before ☐ 29% Income is less than before ☐ 43%

6. If you had not received a MICROBUSINESS LOAN would you have been able to open (or keep open) your business?

12% ___Yes, and sales/business growth would have been about the same.

9%___Yes, but sales/business growth would have been somewhat less (about 75% of estimated sales for 1994).

4%___Yes, but sales/business growth would have been reduced by half (about 50% of estimated sales for 1994).

6%___Yes, but sales/business growth would have been much less (about 25% of estimated sales for 1994).

70%___No, I would not have been able to start (or stay in) business.

7. If you had not received a MICROBUSINESS LOAN would you have been able to employ as many people? (ANSWER THIS QUESTION ONLY IF YOUR BUSINESS HAS EMPLOYEES)

I would have had the same number of employees ☐	I would employ fewer people ☐	I would have no employees ☐
39%	14%	49%

8. How much do you think your business will grow next year(1995)? USE SALES/GROSS REVENUES AS MEASURE OF BUSINESS GROWTH

13% ___business will grow very fast (+50% or more in next year)

19% ___business will grow fast (+25% in next year)

46% ___business will grow steadily (+10% in next year)

19% ___business will grow slowly (+1% to 5% in next year)

2% ___business will not grow

0%___business sales/gross revenues will decrease

9. In the next year will you:

	Yes	No	Not Sure
Increase your working hours	32%	30%	29%
Increase worked by existing employees	20%	22%	22%
Hire additional employees	28%	28%	25%
Increase your personal earnings (draw)	45%	16%	29%
Raise hourly wages for existing employees	13%	30%	17%
Increase overall payroll of business	31%	21%	19%

10. Do you expect to continue to own and operate the business yourself in 1995? (Check all that apply)

84% ___I definitely will continue to operate the business myself.

4% ___I will try to find an investor for the business.

6% ___I will try to find a partner to help me with the business.

7% ___I will continue own the business, but will hire someone to manage it.

11% ___I will try to operate the business, but may need to close or sell.

3% ___I will try to sell the business.

0% ___I will close the business without selling it.

11a. Do you have plans to expand your business in the next few years (1994, 1995, 1996)?

36% ___Yes, definitely will expand

25% ___Probably will expand

19% ___No, business will stay about the same

0 ___No, business will be made smaller and more efficient

21% ___Not sure about business expansion

11b). If you will borrow additional funds to finance a business expansion, what kind of loan do think you will make?

20% ___conventional loan; from bank, savings & loan, credit union
17% ___loan guaranteed by US Small Business Administration
32% ___MICROBUSINESS LOAN from MICROBUSINESS DEVELOPMENT CORPORATION
3% ___private loan from business associates (not family)
14% ___private loan from family members
3% ___other sources of loan funds_____

15% ☐ Check here if you will not have to borrow funds to expand or improve business

7. MISCELLANEOUS QUESTIONS- OPTIONAL

1. How much do you rely on income from your business to support yourself and family? (Check all answers that apply)

23% ___The MICROBUSINESS is my/our only source of income.
18% ___The MICROBUSINESS is my/our main source of income.
16% ___The MICROBUSINESS accounts for about half of my/our income
39% ___The MICROBUSINESS accounts for a small share of my/our income

5% (business is losing money)

2. If you had to do it over again, would you start your own business?

___Yes, definitely 73% ___Probably 13% ___Undecided/Not sure 9% ___No, I would not start my own business 5%

3. If a friend with similar financial resources and business background was starting a business, would you recommend that he/she:

	Strongly Recommend	Recommend		Undecided/ Neutral	Would Not Recommend
Ask for <u>business advise</u> from your local MICROBUSINESS DEVELOPMENT CORPORATION.	☐ 64%	☐ 29%	=93%	☐ 4%	☐ 3%
<u>Borrow funds</u> from your local MICROBUSINESS DEVELOPMENT CORPORATION.	☐ 64%	☐ 22%	=86%	☐ 10%	☐ 2%

MONTANA'S MICROBUSINESS FINANCE PROGRAM

THIRD PARTY EVALUATION

A SURVEY OF MICROBUSINESS DEVELOPMENT CORPORATIONS

Prepared for the

US WEST Foundation
Montana Legislature
Montana Department of Commerce

SURVEY OF MICROBUSINESS DEVELOPMENT CORPORATION STAFF MEMBERS--INTRODUCTORY QUESTIONS Part A.

MISSIONS OF MICROBUSINESS DEVELOPMENT CORPORATIONS

MS-1. What do you view as the PRIORITY MISSION(s) of your MBDC?

	Very High Priority	High Priority	Secondary Priority	Minor Priority	Not Part of MBDC Mission	Score
a. Promoting economic development in communities served by your MBDC.	☐5	☐2	☐2	☐1	☐	(31)
b. Fostering development and growth of businesses owned and operated by low income persons.	☐4	☐4	☐2	☐	☐	(32)
c. Fostering development and growth of small businesses owned and operated by women.	☐4	☐4	☐2	☐	☐	(32)
d. Fostering development and growth of small businesses owned and operated by minorities.	☐3	☐5	☐2	☐	☐	(31)
e. Fostering development and growth of small businesses in general, without regard to serving disadvantaged populations.	☐3	☐4	☐1	☐1	☐1	(27)
f. Reducing state and local government social service costs.	☐2	☐3	☐3	☐1	☐1	(24)
g. Enriching state and local government tax bases.	☐3	☐2	☐3	☐1	☐1	(25)
h. Developing a financially self-sufficient MICROBUSINESS DEVELOPMENT CORPORATION	☐8	☐2	☐	☐	☐	(38)
i. Developing and maintaining sound loan portfolio.	☐7	☐2	☐	☐1	☐	(35)
j. Fostering the professional development and growth of MICROBUSINESS Development Corporation staff.	☐4	☐4	☐2	☐	☐	(32)
l. Nurturing long-term employment and earnings opportunities for disadvantaged people.	☐4	☐3	☐3	☐	☐	(31)
m. Creating jobs "in general" in MBDC service area.	☐5	☐3	☐	☐1	☐1	(30)
n. Fostering entrepreneurial & business management skills among MICROBUSINESS clients.	☐5	☐3	☐2	☐	☐	(33)
o. Improving the economic self-sufficiency of people receiving public assistance.	☐4	☐4	☐2	☐	☐	(32)
p. Other mission_____	☐	☐	☐	☐	☐	
q. Other mission_____	☐	☐	☐	☐	☐	

MBDC BOARDS OF DIRECTORS

BD-1. Is it difficult to recruit people to serve on your MBDC's Board of Directors

Very Difficult		Difficult		Not Difficult			Check here if Board was already in place when MBDC was established
1		1		1		7	☐

BD-2. How frequently does your Board of Directors meet as a group to discuss MBDC business (use current year as example)?

___Weekly ___Twice/Month 5___Monthly 3___Bi-monthly 1___Quarterly 1___Bi-annually Other_____

BD-3. In addition to conversations at Board meetings, how frequently does MBDC staff confer with members of Board of Directors about MICROBUSINESS DEVELOPMENT CORPORATION matters?

__daily/almost every day	__once a week	4__once a month	__almost never		
1__two or more times a week	1__a few times a month	3__once every few months	__never	1__other	

BD-4. How actively involved is your MBDC's Board of Directors in the following areas:
(please consider performance of overall Board)

	Very Actively Involved	Actively Involved	Not Actively Involved		Score	CHECK HERE IF YOU WOULD LIKE YOUR BOARD TO BE INVOLVED MORE ACTIVELY
Promoting public awareness of your MBDC	1__	4__	5__		(6)	☐3
Recruiting clients from targeted populations	__	6__	4__		(6)	☐3
Recruiting clients (in general)	1__	5__	4__		(7)	☐2
Working with commercial lenders	__	3__	7__		(3)	☐1
Gaining support from other economic development organizations and groups	1__	2__	6__	1(NR)	(4)	☐2
Reviewing loan applications	1__	2__	7__		(4)	☐0
Oversight & advice on MBDC budget, staff salaries, benefit packages, etc.	3__	3__	3__	1(NR)	(9)	☐2
Oversight of MBDC financial administration	3__	2__	4__	1(NR)	(8)	☐1
Oversight of MBDC personnel matters	3__	1__	5__	1(NR)	(4)	☐0
Supporting MBDC in agency and/or local government political matters	__	5__	2__	2(NR)	(5)	☐0
Recruitment of operating funds	1__	1__	7__	1(NR)	(3)	☐3
Procurement of local match for Department of Commerce loan funds	1__	3__	5__	1(NR)	(4)	☐3

	Very Actively Involved	Actively Involved	Not Actively Involved	Score	CHECK HERE IF YOU WOULD LIKE YOUR BOARD TO BE INVOLVED MORE ACTIVELY
Providing technical assistance to MBDC staff	___	1___	9___	(1)	☐ 2
Provision/procurement of TA for borrowers	___	1___	9___	(1)	☐ 0
Recruiting operating funds for MBDC	___	1___	9___	(1)	☐ 3
Oversight of Loan Portfolio	___	3___	7___	(3)	☐ 0
Other activities_____	___	___	___		☐

BD-5. What other activities would you like your board to become more actively involved in.

_____

_____

LOAN REVIEW BOARD

LB-1. Does your MBDC's Board of Directors also serve as its LOAN REVIEW BOARD?

Yes___3 No___7 Comment:_____

LB-2. If your Board of Directors and Loan Review Board are separate entities, is it difficult to recruit qualified people to serve on the Loan Review Board?

Very __Difficult 1__Difficult Not 8__Difficult ☐ Board of Directors and Loan Review Board are the same

LB-3a. How many persons are on your Loan Review Board? _____

4 member board- 1 MBDC
5 member board- 6 MBDC
6 member board- 1 MBDC
7 member board- 2 MBDC

LB-3b. How long-are the terms for Loan Review Board members?

__One Year 3__Two Years 2__Three Years 2__Four Years 2__Staggered 1__Open-ended

LB-4. How frequently does your Loan Review Board meet (use 1994 as example)?

___Weekly 1___Twice/Month 7___Monthly ___Bi-monthly 2___Quarterly ___Bi-annually Other_____

LB-5. How actively involved is your Loan Review Board of Directors in the following areas:
(please consider performance of overall Board)

	Very Actively Involved	Actively Involved	Not Actively Involved	CHECK HERE IF YOU WOULD LIKE YOUR BOARD TO BE INVOLVED MORE ACTIVELY	Score
Recruiting/referring potential clients to MBDC	___	___5	___5	☐3	(5)
Providing technical assistance to MBDC staff	___	___4	___6	☐3	(4)
Providing TA to loan applicants (before loan) -business plan development etc.	___	___	___10	☐1	(0)
Providing TA borrowers (after receiving loan)	___	___	___10	☐2	(0)
Working with commercial lenders	___1	___5	___4	☐2	(7)
Gaining support from other private lenders & economic development organizations	___1	___1	___8	☐4	(3)
Management of the MBDC's Loan Portfolio	___	___6	___4	☐2	(6)

LB-6a. Does the MBDC staff have a formal criteria (set business analysis system) for evaluating MICROBUSINESS loan applications (e.g. collateral requirements, valuation).

___Yes, we adhere to an explicit criteria

2___Yes, but we have some flexibility

2___Yes, but we have great deal of flexibility

6___No, applications are analyzed case-by-case basis/ with no set guidelines

LB-6b. When a loan application is being reviewed by the Loan Board, does the MBDC staff submit a formal recommendation to approve or deny the loan.

Yes___5 No___5 Comment:_____

LB-6c. Does MBDC staff formally recommend terms under which loan approval should be conditioned.

Yes___7 No___2 Other___1 Comment:_____

LV-7a. About what percent of formal applications for a MICROBUSINESS LOAN are approved by your Loan Review Board?

__ 0% __10% __20% 1__30% 3__40% 1__50% 2__60% __70% 2__80% __90% __100% 1(NR)

LB-7b. Have there been times when you have disagreed with the Loan Review Board's decision to approve/deny a MICROBUSINESS LOAN?

(CHECK ALL RESPONSES THAT APPLY)

3__ I have never disagreed with Loan Review Board decision.

2__ I have disagreed with a Loan Review Board decision to approve a loan.

5__ I have disagreed with a Loan Review Board decision to deny a loan.

LB-7c Are there an appeal procedures for persons who's loan application are denied by the Loan Review Board?

Yes___10 No___ Comment:_____

LB-7d. Overall, how well prepared are members of Loan Review Board to evaluate business proposals, and formulate and implement lending policies?

Very Well Prepared	Well Prepared	Marginally Prepared	Poorly Prepared
4__	6__	__	__

LB-8a. How much would Loan Review Board members benefit from additional training on business proposal evaluation and lending practices (think about overall board)?

Very Major Benefit ☐2 Major Benefit ☐2 Minor Benefit ☐5 No Benefit ☐1 Not Sure ☐

Comments:_____

LB-8b. If YES, what training subject areas would provide greatest benefit to your Loan Review Board Members?

_____

_____

LB-8c. If training sessions are provided for Loan Review Boards, how many members of your board are likely to participate?

___All 2__Most 2___Half 4___A Few 1___None 1(NR)

Comments:_____

MARKETING OF MICROBUSINESS LOANS

MK-1. How do your clients initially learn about the MICROBUSINESS Loan Program?

	Primary Source of Clients	Secondary Source of Clients	Minor Source of Clients	Not a Source of Clients	Score
Bank, savings and loan, credit union	4	4	2		(22)
Small Business Adm. (US Gov.)	1	2	2	5	(9)
Mont. Department of Commerce Employee	1	2	5	2	(13)
SCORE (Senior Corps of Retired Executives)		2	5	3	(9)
Local Chamber of Commerce		4	2	4	(10)
SBDC (Small Business Development Center)	4	3	3		(21)
Local economic development corporation	1	4	4	1	(16)
Personal contact with local MBDC staff person	3	4	2	1	(19)
Read about in newspaper	2	5		3	(16)
Small business owner(active/former MBDC client)	2	5	1	2	(17)
Other small business owner (not MBDC client)	1	2	5	2	(12)
Friends or relatives (word-of-mouth)	4	5		1	(22)
Human/Social service agency	1	5	3	1	(16)
TV or radio advertisements	1	1	4	4	(9)
Referrals by staff of other MBDC		4	5	1	(13)
Women's groups/networks		3	2	5	(8)
State MICROBUSINESS office-Helena		2	7	1	(11)
Posters, circulars, brochures	2	4	3	1	(17)
other_____					
other_____					

MK-2. Is there much unmet demand for MICROBUSINESS-type loans in the areas served by your MBDC? (qualified borrowers?)

Very Substantial Unmet Demand ☐ Substantial Unmet Demand ☐ 2 Moderate Unmet Demand ☐ 5 A Little Unmet Demand ☐ 3 No Unmet Demand ☐ Uncertain About Demand ☐

MK-3a. Which are the ways you market the MICROBUSINESS LOAN PROGRAM to potential clients and how effective do you feel they are?

PART A Check here if you use this medium to promote participation in the MICROBUSINESS LOAN PROGRAM	PART B Please rate the effectiveness of the promotion activity (leave blank if you do not use this medium) Very Effective	Moderately Effective	Minimally Effective	Not Effective	Not Sure	Score
8 ☐ Newspaper advertisements & articles	3	4	1			(18)
2 ☐ Television ads and information spots	2					(6)
10 ☐ Presentations at community meetings	4	3	3			(21)
3 ☐ Radio ads and information spots	2		5			(11)
10 ☐ Brochures/publications/pamphlets	2	5	3			(21)
10 ☐ Word of mouth	4	5	1			(23)
1 ☐ Billboards			1			(1)
10 ☐ One-on-one sessions with lenders (to gain referrals)	3	3	4			(19)
9 ☐ One-on-one sessions with economic development officials (to gain referrals)	1	2	5	1		(12)
8 ☐ One-on-one sessions with human service agency officials (to gain referrals)	2	2	2	1		(12)
7 ☐ One-on-one sessions with women's organizations (to gain referrals)	3	1	2	1		(13)
8 ☐ One-on-one sessions w tribal agencies & Native American Indian Organizations (to gain referrals)	2	1	1	4		(9)
9 ☐ Business training sessions, in which MBDC is participant	1	4	4			(15)
Other_____						
Other_____						

MK-3b. How do you rate the overall effectiveness of MBDC and other group efforts agency to promote participation (recruit clients) in the MICROBUSINESS LOAN PROGRAM?

Very Effective ☐	Moderately Effective ☐ 3	Minimally Effective ☐ 5	Not Effective ☐ 1	Not Sure ☐ 1	Score (11)

MK-4. How do you rate the overall effectiveness of efforts to recruit clients from targeted populations?

	Very Effective	Moderately Effective	Minimally Effective	Not Effective	Not Sure	Score
Recruiting low income entrepreneurs	2___	6___	1___	1___	___	(19)
Recruiting women entrepreneurs	4___	4___	___	1___	1___	(20)
Recruiting minority entrepreneurs	1___	1___	6___	1___	1___	(11)
Recruiting male entrepreneurs	1___	6___	1___	1___	1___	(16)
Recruiting middle income entrepreneurs (in general)	___	5___	4___	1___	_	(14)

MK-5. What are the barriers which inhibit suitable clients from applying for MICROBUSINESS LOANS from your MBDC?

	Major Barrier	Moderate Barrier	Minor Barrier	Not a Barrier	Uncertain About Effect	Score
Limited public awareness about MICROBUSINESS LOAN program	2___	2___	1___	4___	___	(11)
Insufficient funds to available loan	___	2___	1___	6___	1___	(5)
Image of MICROBUSINESS LOAN program as being welfare program	___	1___	6___	2___	1___	(8)
Image of MICROBUSINESS LOAN program as being a women's program	___	1___	3___	5___	1___	(5)
Lack of referrals & support from commercial lenders	1___	___	5___	4___	___	(8)
Lack of referrals & support from econ. dev. groups	___	2___	7___	1___	___	(11)
Lack of referrals & support from women's networks	1___	2___	3___	4___	___	(10)
Insufficient of MBDC staff-time to recruit clients	3___	5___	2___	___	___	(21)
Lack of personal self-confidence on the part of prospective clients	___	2___	6___	___	2___	(10)
Reputation of program for high turndown rate	1___	___	3___	4___	2___	(6)
Paperwork intimidates prospective clients	6___	2___	1___	___	1___	(5)
Program reputation for high turn-down rate	1___	___	3___	4___	2___	(6)
High interest rates for MICROBUSINESS LOANS	1___	2___	5___	2___	___	(12)
The time required for processing loan application	3___	5___	1___	1___	___	(20)

	Major Barrier	Moderate Barrier	Minor Barrier	Not a Barrier	Uncertain About Effect	
Client concerns about losing pub. assistance benefits	1___	2___	2___	4___	1___	(9)
Other_____	___	___	___	___	___	
Other_____	___	___	___	___	___	

MK-6. What will be the major emphasis of your 1995 marketing efforts?_____

_____

MK-7. In the next year, do you expect the number of persons seriously inquiring about MICROBUSINESS LOANS to increase (compared to last 6-months of MBDC operation)?

__Number of loan inquiries will grow very rapidly (+50% or more in next year)

3__Number of loan inquiries will increase rapidly (+25% in next year)

2__Number of loan inquiries will increase steadily (+10% in next year)

2__Number of loan inquiries will increase slowly (+1% to 5% in next year)

3__Number of loan inquiries will stay about the same (will not increase)

__Number of loan inquiries will decrease

MK-8. Do you feel a statewide advertising campaign providing information about the MICROBUSINESS LOAN PROGRAM would increase the number of clients served by your MBDC (campaign would be sponsored by the Department of Commerce).

Substantially increase clients ☐ 4	Moderately increase clients ☐ 4	No effect on number of clients ☐ 1	Moderately decrease clients ☐	Substantially decrease clients ☐	1= other

MK-9. What statewide advertising approaches do you feel will be most effective in recruiting qualified clients for your MICROBUSINESS LOAN PROGRAM?

	Very Effective	Moderately Effective	Not Effective	Not Sure	Score
Television spots (PSAs)	6__	1__	1__	2__	(13)
Television talk show interviews	2__	4__	3__	1__	(8)
Radio spots (PSAs)	4__	4__	__	2__	(12)
Radio talk show interviews	1__	4__	2__	3__	(10)

	Very Effective	Moderately Effective	Not Effective	Not Sure		
Billboards	1__	2__	2__	5__		(4)
Local newspaper advertisements	1__	4__	3__	1__	1(NR)	(6)
Local newspaper articles	5__	4__	__	1__	1(NR)	(14)
Regional newspaper advertisements	2__	5__	2__	__	1(NR)	(9)
Regional newspaper articles	5__	4__	__	1__		(14)
Presentations to area business groups	3__	5__	1__	1__		(11)
Publications about MICROBUSINESS LOANS (pamphlets, brochures targeted to commercial lenders & SBA)	1__	7__	2__	__		(7)
Videos about MICROBUSINESS LOANS	3__	1__	4__	2__		(8)
Other_____	__	__	__	__		

MK-10. If your MBDC received a $3,000 grant for program promotion, how would you spend it?

_____

Requirement that MICROBUSINESS LOAN Applicant to be Refused a Commercial Loan

CL-1. Does your MBDC require that clients be refused a loan from a commercial lender prior to applying for a MICROBUSINESS LOAN?

5__YES 5__NO Comment:_____

CL-2. Do you feel that a "commercial loan application requirement" deters people from applying for a MICROBUSINESS LOANS..

Major Deterrent ☐1 Minor Deterrent ☐6 Not a Factor ☐2 1(NR)

CL-3. Is the experience of inquiring into a commercial loan of benefit to clients when they apply for a MICROBUSINESS LOAN?

Very Helpful ☐ Helpful ☐5 Neutral/Mixed ☐4 Detrimental ☐ Very Detrimental ☐ 1(NR)

Comment:_____

CL-4. Should MICROBUSINESS clients be required to investigate a commercial loan before applying for a loan from an MBDC?

5__YES 5__NO Comment:_____

CLIENT CHARACTERISTICS

CC-1 About what percent of people who inquire about MICROBUSINESS LOANS apply for a MICROBUSINESS LOAN?

1__5% 4__10% 2__20% 1__30% 1__40% 1__50% __60% __70% __80% __90% __100%

CC-2 What are main reasons why people do not follow through with applying for a MICROBUSINESS LOAN? (name 2 most common reasons)

1) _____

2) _____

CC-3 About what portion of your MICROBUSINESS loan applicants come from the following population groups? (totals need not add to 100%)

	All/ Nearly All	Most	About Half	Some/Less than Half	None	Score
People receiving public assistance	___	___	2___	7___	1___	(11)
Low income households	1___	4___	2___	3___	___	(23)
Women	1___	3___	5___	1___	1___	(24)
Native American Indians	___	___	___	9___	1___	(9)
Middle Income Households	___	1___	5___	4___	___	(17)
Males	___	1___	6___	2___	___	(18)
Other racial or ethnic minorities (not Native Americans)	___	___	___	5___	5___	(5)
Male/female partnerships	1___	___	1___	8___	___	(14)

CC-4. About what percent of loan applicants are already operating the business they are applying to borrow money for?

Nearly All☐ Most ☐ About Half☐5 Some ☐5 None☐

CC-5. About what portion of your MICROBUSINESS loan applicants have well conceived business plans when they initially inquire about a MICROBUSINESS loan?

Nearly All☐ Most ☐ About Half☐ Some ☐4 A Few/None☐6

CC-6. Based on your experiences, what kinds of training, technical assistance, and other help are most commonly needed by your MICROBUSINESS Loan applicants (AT THE TIME OF APPLICATION)?

	All/ Nearly All	Most	About Half	Some/Less than Half	None	Score
estimating business sales (cash receipts)	___3	___4	___2	___1	___	(29)
estimating business operation costs	___2	___5	___3	___	___	(29)
estimating cash flow	___4	___6	___	___	___	(34)
estimating need for working capital	___	___7	___3	___	___	(27)
business record keeping/bookkeeping	___5	___4	___	___1	___	(33)
understanding interest rates	___	___2	___4	___4	___	(18)
understanding taxes & withholding	___4	___2	___2	___2	___	(28)
understanding seasonal business cycles	___	___4	___2	___4	___	(20)
help with loan applications/packaging	___6	___4	___	___	___	(36)
hiring employees & employee regulations	___1	___2	___3	___3	___1	(23)
how to price product or service	___	___7	___1	___2	___	(25)
how to market product or service	___2	___6	___1	___1	___	(27)
help with BUSINESS PLAN preparation	___5	___4	___1	___	___	(33)
other_____	___	___	___	___	___	
other_____	___	___	___	___	___	

CC-7. About what portion of your MICROBUSINESS clients are well prepared to own and operate their own businesses at the time they receive their business loans?

Score

Nearly All☐ Most ☐4 About Half☐3 Some ☐3 A Few/None☐ (21)

OPERATING A MICROBUSINESS

CC-8 Based on your experiences, what kinds of ongoing training, technical assistance, and other help are most commonly needed by your MICROBUSINESS Loan clients (ONCE A MICROBUSINESS IS IN OPERATION)?

	All/ Nearly All	Most	About Half	Some/Less than Half	None	Score
estimating business sales (cash receipts)	2___	1___	2___	4___	1___	(19)
estimating business operation costs	___	3___	3___	4___	___	(19)
estimating cash flow	2___	1___	3___	4___	___	(21)
estimating need for working capital	1___	___	5___	4___	___	(18)
business record keeping/bookkeeping	4___	4___	1___	1___	___	(27)
understanding taxes & withholding	3___	1___	1___	5___	___	(22)
understanding interest rates	___	___	___	7___	3___	(7)
refinancing debt	___	___	2___	6___	2___	(10)
help with additional loan applications/	___	1___	2___	3___	4___	(12)
hiring employees & employee regulations	1___	1___	1___	6___	1___	(15)
purchasing supplies, equipment, etc.	___	___	2___	7___	2___	(13)
how to price product or service	___	2___	3___	3___	2___	(15)
how to market product or service	___	4___	3___	3___	___	(21)
estimating needs for capital	___	3___	5___	1___	1___	(20)
adjusting products/services to market	___	2___	3___	4___	1___	(16)
business partnership issues	1___	3___	2___	2___	2___	(19)
projecting & understanding business growth	2___	4___	2___	1___	1___	(25)
business expansion (when, how, how much)	3___	2___	1___	4___	___	(24)
other_____	___	___	___	___	___	
other_____	___	___	___	___	___	

TRAINING AND TA for MICROBUSINESS CLIENTS

TA-1. What training and technical assistance services do you provide in-house. (You may check more than one response

	MBDC provides in-house training and TA	Traning and is provided both in-& out-of house	Service is provided by private and/or public organizations outside MBDC	Service is unavailable or of limited value	Score
help with BUSINESS PLAN preparation	___2	___8	___	___	(22)
estimating business sales (cash receipts)	___3	___7	___	___	(23)
estimating business operation costs	___3	___7	___	___	(23)
estimating cash flow	___3	___7	___	___	(23)
estimating working capital needs	___3	___5	___2	___	(21)
business record keeping/bookkeeping	___4	___4	___2	___	(22)
purchasing supplies, equipment, etc.	___3	___6	___	___1	(21)
understanding interest rates	___4	___3	___2	___1	(20)
understanding taxes & withholding	___3	___2	___5	___	(18)
understanding seasonal business cycles	___3	___6	___1	___	(22)
help with loan applications/packaging	___4	___6	___	___	(24)
hiring employees & employee regulations	___2	___1	___6	___1	(14)
how to price and market product or service	___2	___3	___5	___	(17)
projecting/understanding business growth	___3	___1	___6	___	(17)
refinancing debt	___5	___3	___2	___	(23)
planning for business expansion	___2	___5	___2	___	(18)
projecting & understanding business growth	___2	___4	___3	___	(17)
other_____	___	___	___	___	
other_____	___	___	___	___	
other_____	___	___	___	___	

TA-2. Which agency, business sector, and other technical assistance and training resources do you find to be helpful to your MICROBUSINESS clients.

	PLANNING A NEW MICROBUSINESS					ASSISTING AN ESTABLISHED MICROBUSINESS				
	Very Helpful	Helpful	Not Helpful	NR	Score	Very Helpful	Helpful	Not Helpful	NR	Score
Local Chamber of Commerce	2	1	6		(5)	1	3	6	1	(4)
private bank, savings and loan, other lender		3	6	1	(3)	1	7	2		(9)
Montana Department of Commerce (employee)		4	4	2	(4)		7	1	2	(7)
US Government (Small Business Administration)	1	2	5	2	(4)	1	3	4	2	(5)
Small Business Development Center (SBDC)	3	3	3	1	(9)	4	4	2		(12)
SCORE (Senior Corps of Retired Executives)		6	4		(6)	1	6	3		(8)
Bus. Consultants (lawyers, accountants, etc.)		7	3		(7)	2	6	2		(10)
Women's Organizations		1	7	2	(1)		1	7	2	(1)
Local Economic Development Corp.(Organization)	1	3	5	1	(5)	2	3	5		(7)
Human Service Agencies	1	4	5		(6)	1	2	6	1	(4)
Other small business operators	2	4	3	1	(8)	1	5	3	1	(7)
Client friends and relatives	1	4	2	1	(6)		4	4	2	(4)
Books & publications	3	7	6		(13)	4	6			(14)
Other MBDCs	1	5	2	2	(7)	1	5	2	2	(7)
Other resources_____										
Other resources_____										
Other resources_____										

TA-3. When MICROBUSINESS clients receive training and/or technical assistance from organizations outside of the MBDC, how is it paid for?

	Nearly All the Time	Most of the Time	About Half the Time	Some of the Time	None/Almost None the Time	NR	Score
Client pays full price for training & TA	☐	☐[4]	☐[1]	☐[2]	☐[2]	1	(16)
Client pays discounted cost for training & TA	☐	☐[1]	☐[1]	☐[4]	☐[2]	2	(9)
Training and TA services are volunteered by provider	☐[1]	☐[1]	☐[1]	☐[5]	☐[1]	1	(14)

TA-4. Overall, how well are the TECHNICAL ASSISTANCE needs of your MICROBUSINESS clients being met?

___fully satisfied
3___mostly satisfied
4___partially satisfied
3___minimally satisfied
___TA is totally inadequate
(20) Score

CC-9. If you could improve the types and/or quality of technical assistance services available to your MBDC clients, what would you improve?

1st Choice:_____

2nd Choice:_____

CC-10. Overall, how well are the TRAINING needs of your MICROBUSINESS clients being met?

___fully satisfied
3___mostly satisfied
6___partially satisfied
1___minimally satisfied
___training is totally inadequate
(21) Score

CC-11. If you could improve the types and/or quality of training services available to your MBDC clients, what would you improve?

1st Choice:_____

2nd Choice:_____

MBDC ADMINISTRATION USES Of STAFF TIME

AD-1. What are the major uses of professional staff time at your MBDC (USE AUGUST-SEPTEMBER-OCTOBER AS EXAMPLE)?

USES OF PROFESSIONAL STAFF TIME	Very Major Use of Staff Time	Major Use of Staff	Moderate Use of Staff Time	Minor Use of Staff Time	Not a Use Staff Time	Score
Preparing/providing public information about MICROBUSINESS LOAN PROGRAM	(1)	(1)	(3)	(5)	( )	(18)
Recruiting clients	( )	(4)	(3)	(2)	(1)	(20)
Providing in-house training & TA services for loan applicants	( )	(2)	(6)	(1)	(1)	(19)
Procuring training & TA services for loan applicants (from outside MBDC)	( )	(1)	(4)	(4)	(1)	(15)
Assisting clients in preparing loan applications	(3)	(5)	(2)	( )	( )	(31)
Reviewing loan applications	(1)	(3)	(6)	( )	( )	(25)
Structuring/packaging of loans	(1)	(3)	(3)	(2)	(1)	(21)
Preparing for and working with Loan Review Board	(1)	(3)	(4)	(2)	( )	(23)
Monitoring MICROBUSINESS performance	(2)	(1)	(4)	(3)	( )	(22)
Pulfilling reporting requirements of Montana Department of Commerce	( )	(2)	(5)	(3)	( )	(19)
Preparing for and working with Board of Directors	( )	(1)	(2)	( )	(6)	1-NR (7)
Researching/applying for operations funds	(2)	(1)	(1)	(4)	(1)	(17)
Monitoring performance client businesses	(1)	(2)	(4)	(3)	( )	(21)
Providing technical assistance for existing clients	(2)	(4)	(3)	(1)	( )	(27)
Monitoring client loan payments	(3)	(3)	(2)	(1)	(1)	(26)
Providing training for existing clients	(1)	(2)	(4)	(3)	( )	(21)
Establishing & maintaining working relationships with commercial lenders	( )	(2)	(5)	(3)	( )	(19)
Developing and maintaining working ties w/ economic development organizations	( )	(1)	(3)	(5)	(1)	1-NR (14)

USES OF PROFESSIONAL STAFF TIME	Very Major Use of Staff Time	Major Use of Staff	Moderate Use of Staff Time	Minor Use of Staff Time	Not a Use Staff Time	Score
Developing and maintaining working ties w/ human service agencies	( )	(1)	(2)	(6)	(1)	(13)
Developing and maintaining working ties w/ Native American Indian groups/networks	( )	(2)	(2)	(4)	(2)	(14)
Developing and maintaining working ties w/ women's organizations/networks	( )	( )	(2)	(7)	(1)	(11)
Training for MBDC staff	( )	( )	(4)	(4)	(2)	(12)
Internal record keeping	(3)	(2)	(2)	(3)	( )	(25)
MBDC office & personnel administration	(1)	(3)	(1)	(4)	(1)	(19)

AD-2. Are number of professional staff persons adequate for current work load (1994) and anticipated work load in 1995?

1994 PROFESSIONAL STAFFING

___currently have more staff than we need
4___current staffing is about right
3___need ½ additional staff person
1___need 1 additional staff person
1___need 2 additional staff persons
___need 3 additional staff persons
1-other

1995 PROFESSIONAL STAFFING

___we will have more staff than we need
2___current staffing is about right for 1995
5___need ½ additional staff person in 1995
1___need 1 additional staff person in 1995
2___need 2 additional staff persons in 1995
___need 3 additional staff persons in 1995

1994 SUPPORT STAFF

1___currently have more staff than we need
4___need ½ additional staff person
4___current staffing is about right
___need 1 additional staff person
1-NR

1995 SUPPORT STAFF

1___we will have more staff than we need
3___need ½ additional staff person in 1995
5___current staffing is about right for 1995
___need 1 additional staff person in 1995
1-NR

COMMENTS:

AD-3a. Does your MBDC have plans to increase its staffing in 1995? 3__Yes 3__No 4__Not Sure

AD-3b. If Yes, what staff will you add:

	Full-Time	Part-Time	
Professional Staff:	____	2____	(job description)_____
			(job description)_____
Support Staff:	1____	____	

AD-3c. If your MBDC will not be adding staff, will work load of existing staff be increased? 3__Yes ___No 6__Not Sure
1-NR

AD-4a. Is (or will) retention of professional staff a problem for your MBDC?

3 ☐ Major Problem ☐ Minor Problem 7 ☐ Not a Problem ☐ Too Soon to Tell

AD-4b. If retention of professional staff is (or will be) a problem, what are the main reasons?

1___stressful work	___limited advancement opportunities	___better employment opportunities elsewhere
1___pay is inadequate	___lack of support in community	1___staff takes clients' problems home
1___long-working hours	___personality conflicts	3___MBDC's financial future is too precarious
___work is not satisfying	___MBDC's goals are unachievable	1___lack of support from parent organization
3___MBDC mission is ambiguous	___inadequate employee benefits	___personnel ill-suited to job (skill-wise)
___staff burnout	___just time for change in jobs	___personnel ill-suited to job (personality-wise)
___ _____	___ _____	___ _____

AD-5. Does your MBDC share staff with another agency or organization?

Yes____6 No____4

AD-6a. Are there clear distinctions between staff responsibilities and tasks performed for MBDC and staff responsibilities and tasks performed for other organization(s)? (ANSWER QUESTION SERIES (AD-6.) ONLY IF STAFF TIME IS SHARED WITH ANOTHER ORGANIZATION)

Always/Nearly Always there is Clear Distinction ☐ 4	Most of Time there is Clear Distinction ☐ 3	Half the Time there is Clear Distinction ☐	Most of Time there is not Clear Distinction ☐	Always/Nearly Always there is not Clear Distinction ☐ 3-NR

AD-6b. How are costs allocated between organizations?_____

MBDC STRUCTURE & ORGANIZATION

ST-2. Does how your MBDC is structured and/ or the kind of organization your MBDC is located within in affect your ability to recruit clients from targeted populations?

	Major Advantage	Advantage	Neutral- No Advantage/ Disadvantage	Disadvantage	Major Disadvantage	Score
Recruiting low income entrepreneurs	5___	2___	1___	1___	1___	(7)
Recruiting women entrepreneurs	___	4___	2___	4___	___	(0)
Recruiting minority entrepreneurs	2___	3___	3___	4___	___	(3)
Recruiting male entrepreneurs	1___	___	8___	1___	___	(1)
Recruiting middle income entrepreneurs	___	3___	5___	2___	___	(1)
Recruiting small business clients in general	___	3___	6___	1___	___	(2)

ST-2. What are the advantages and disadvantages of how your MBDC is setup?

	Major Advantage	Advantage	No Advantage Disadvantage	Disadvantage	Major Disadvantage	Score
Advancing public awareness of MICROBUSINESS Loans	(1)	(4)	(4)	(1)	( )	(4)
Achieving economies of efficiency in operational costs	(2)	(5)	(1)	(2)	( )	(7)
Providing clarity in organization's mission	( )	(6)	(2)	(2)	(1)	(2)
Affording flexibility in loan packaging	( )	(4)	(5)	(1)	( )	(3)
Promoting versatility in in-house expertise	(1)	(7)	(1)	(1)	( )	(8)
Providing for well-defined staff responsibilities	(1)	(5)	(4)	( )	( )	(7)
Recruiting operating funds	( )	(7)	(1)	(2)	( )	(5)
Achieving long-term financial self-sufficiency for MBDC	(1)	(4)	(3)	(2)	( )	(4)
Recruiting/retaining staff with advanced MICROBUSINESS expertise	(1)	(2)	(4)	(3)	( )	(1)
Providing a satisfying working environment for staff	(3)	(2)	(5)	( )	( )	(8)
Assuring long-term financial survival for MBDC	(1)	(4)	(2)	(2)	( )	(4)
Fostering a business oriented image for MBDC	(1)	(3)	(4)	(2)	( )	(3)
Fostering productive working relationships with business community	(1)	(5)	(3)	( )	(1)	(5)
Working effectively with commercial lenders	(1)	(4)	(5)	( )	( )	(6)
Fostering productive working relationships with Native American Indian organizations and networks	(1)	(2)	(7)	( )	( )	(4)
Fostering productive working relationships with relevant human service organizations	(4)	(2)	(4)	( )	( )	(10)
Fostering productive working relationships with relevant women's organizations and networks	(2)	(2)	(6)	( )	(1)	(6)
Providing on-the job learning opportunities for staff	(1)	(5)	(3)	( )	( )	(7)
Recruiting/retaining capable Board of Directors	(2)	(3)	(3)	(2)	( )	(5)
Recruiting/retaining capable Loan Review Board members	(1)	(7)	(2)	( )	( )	(9)
Fostering administrative flexibility and responsiveness	(1)	(4)	(3)	(2)	( )	(3)
Other_____	( )	( )	( )	( )	( )	

ST-3a. Do you feel that MBDCs located within HUMAN SERVICE ORGANIZATIONS enjoy advantage or disadvantage in the recruitment of low income clients.

Major Advantage	Minor Advantage	Neutral No Advantage/ No Disadvantage	Minor Disadvantage	Major Disadvantage	Score
☐ 8	☐ 1	☐ 1	☐	☐	(17)

ST-3b. Do you feel that MBDCs located within HUMAN SERVICE ORGANIZATIONS enjoy advantage or disadvantage in the recruitment of middle income clients.

Major Advantage	Minor Advantage	Neutral No Advantage/ No Disadvantage	Minor Disadvantage	Major Disadvantage	Score
☐	☐ 3	☐ 3	☐ 3	☐	(1)

ST-4a. Do your feel that MBDCs affiliated or identified with Women's organizations enjoy advantage or disadvantage in the recruitment of WOMEN CLIENTS.

Major Advantage	Minor Advantage	Neutral No Advantage/ No Disadvantage	Minor Disadvantage	Major Disadvantage	Score
☐ 6	☐ 3	☐ 1	☐	☐	(15)

ST-4b. Do your feel that MBDCs affiliated or identified with Women's organizations enjoy advantage or disadvantage in the recruitment of LOW INCOME WOMEN CLIENTS.

Major Advantage	Minor Advantage	Neutral No Advantage/ No Disadvantage	Minor Disadvantage	Major Disadvantage	Score
☐ 2	☐ 6	☐ 2	☐	☐	(10)

ST-4c. Do your feel that MBDCs affiliated or identified with Women's organizations enjoy advantages or disadvantages in the recruitment of MALE CLIENTS.

Major Advantage	Minor Advantage	Neutral No Advantage/ No Disadvantage	Minor Disadvantage	Major Disadvantage	Score
☐	☐	☐ 3	☐ 7	☐	(-7)

ST-5a. Do your feel that MBDCs located within Economic Development Agencies enjoy advantages or disadvantages in the recruitment of LOW INCOME CLIENTS.

Major Advantage	Minor Advantage	Neutral No Advantage/ No Disadvantage	Minor Disadvantage	Major Disadvantage	Score
☐ 1	☐ 1	☐ 2	☐ 5	☐ 1	(-4)

ST-5b. Do your feel that MBDCs located within Economic Development Agencies enjoy advantages or disadvantages in the recruitment of MIDDLE INCOME CLIENTS.

Major Advantage	Minor Advantage	Neutral No Advantage/ No Disadvantage	Minor Disadvantage	Major Disadvantage	Score (7)
☐[1]	☐[5]	☐[4]	☐	☐	

A-6. Overall, do you feel it is an advantage or disadvantage for an MBDC to be a:

	Major Advantage	Advantage	Undecided/ Neutral	Disadvantage	Major Disadvantage	Score
a) single purpose organization (self-standing MBDC)	( )	( )	(4)	(6)	( )	(-6)
b) within a larger economic development organization	(1)	(5)	(2)	(2)	( )	(7)
c) part of a human services organization	( )	(3)	(6)	(1)	( )	(2)
d) part of a broad-missioned agency (not limited to human services or economic development)	( )	(6)	(4)	( )	( )	(6)
e) within a special purpose organization (identified with specific population)	( )	(1)	(7)	(2)	( )	(-1)

MONTANA DEPARTMENT OF COMMERCE

DC-1. Which of the following Montana Department of Commerce agencies, programs, and/or personnel does your MBDC use when administering the MICROBUSINESS Program and providing assistance to MICROBUSINESS clients?

	Regularly	Occasionally	Infrequently	Never		Score
Small Business Development Centers (SBDCs)	4____	2____	4____	____		(20)
MICROBUSINESS Administrative Office in Helena	____	4____	3____	3____		(11)
Regional Economic Development Officers (RDOs)	1____	1____	4____	3____	1-NR	(9)
Business Recruitment/Retention (MEDA)	____	1____	3____	6____		(5)
International Trade Office	____	1____	4____	5____		(6)
Fastrack	1____	1____	2____	5____	1-NR	(7)
Community Development Block Grants (Econ.Dev.)	2____	1____	3____	4____		(11)
Travel Promotion/Tourism	1____	____	3____	6____		(6)
Other DOC programs_____ e.g. Ambassadors/Housing/MST/BOI/ Bus.Licensing	____	____	____	____		

DC-2. How actively involve was the Department of Commerce in establishment of your MBDC?

1☐ Very Actively Involved 2☐ Actively Involved 4☐ Not Actively Involved 1☐ Not Sure 2-NR

DC-3. What ongoing role do you think the Department of Commerce's MICROBUSINESS Office should play in supporting local MBDCs?

ONGOING ROLE	Very Important Role	Important Role	Secondary Role	Minor Role	Not a Function of State MICROBUSINESS Office	Score
Promoting statewide awareness of the availability of MICROBUSINESS Loans	5____	5____	____	____	____	(35)
Promoting public awareness of your MBDC's MICROBUSINESS Loan Program	3____	1____	2____	3____	1____	(20)
Assisting MBDCs in recruiting clients(referrals)	1____	1____	2____	6____	____	(17)
Providing/procuring training for MBDC clients	____	1____	3____	2____	4____	(11)
Providing/procuring technical assistance for MBDC clients	____	3____	3____	1____	3____	(16)

ONGOING ROLE	Very Important Role	Important Role	Secondary Role	Minor Role	Not a Function of State MICROBUSINESS Office	Score
Raising operating funds for MBDCs	____5	____3	____1	____1	____	(32)
Facilitating collaboration between MBDCs and other state agencies & programs	____	____5	____2	____1	____2	(20)
Facilitating, preparing, & reviewing legislation affecting MBDC financing and operations	____6	____3	____1	____	____	(35)
Developing guidelines and other information for MBDC lending policies, underwriting policies, & loan portfolio management	____1	____1	____1	____5	____2	(14)
Identifying potential sources of funding for MBDC operations	____5	____2	____2	____1	____	(31)
Researching & disseminating information about trends in MICROBUSINESS lending practices	____2	____3	____2	____3	____	(24)
Disseminating information about legal issues associated with MICROBUSINESS lending	____3	____4	____2	____1	____	(29)
Providing staff services for MICROBUSINESS ADVISORY COUNCIL	____1	____5	____2	____2	____	(25)
Developing and implementing uniform MBDC reporting systems	____3	____3	____2	____2	____	(25)
Monitoring health of overall MICROBUSINESS loan portfolio (of whole network)	____4	____3	____2	____1	____	(27)
Providing/procuring training for MBDC staff	____3	____4	____	____3	____	(24)
Providing/procuring technical assistance for MBDC staff	____2	____3	____1	____4	____	(23)
Other_____	____	____	____	____	____	
Other_____	____	____	____	____	____	

DC-4. Are Department of Commerce reporting requirements reasonable?

Too much Detail ☐1 About Right Amount of Detail ☐7 Not Enough Detail ☐2

1___Check here if you think reporting requirements are being changed too often?

Comments:_____

DC-5. Which of the following promotional publications and administrative forms would you find useful? (Forms would be developed by the Montana Department of Commerce in consultation with the MBDC Association).

	Very Useful	Useful	Mixed/ Neutral	Not Useful	Score
Development of standard MICROBUSINESS Loan Information Brochures	2_____	5_____	_____	3_____	(6)
Development of standard MICROBUSINESS Loan Application Forms	2_____	3_____	1_____	4_____	(3)
Development of standard MICROBUSINESS Loan Agreement Forms	1_____	4_____	1_____	4_____	(2)

DC-6. Which aspects of managing your MBDC's Loan Portfolio would you like to receive technical help or training?

DC-6a.(CHECK Portfolio management subjects in which you would participate in training).

0_____ Identification of key LOAN PORTFOLIO data

3_____ Collecting and processing PORTFOLIO data

3_____ Interpreting PORTFOLIO financial information

3_____ PORTFOLIO financial management decision making

3_____ Loan and borrower risk evaluation

5_____ Loan pricing

DC-6b. (CHECK Portfolio management subjects in which you would like to have technical assistance available

5_____ Identification of key LOAN PORTFOLIO data

4_____ Collecting and processing PORTFOLIO data

4_____ Interpreting PORTFOLIO financial information

5_____ PORTFOLIO financial management decision making

5_____ Loan and borrower risk evaluation PORTFOLIO

5_____ Loan pricing

DC-7a. If the Department of Commerce provided your MBDC with computer software for managing its LOAN PORTFOLIO, would your MBDC use it? (Assume the Department would also provide training and technical support for use of the software).

4____ Yes, definitely
3____ Probably
1____ Not Sure
2____ No Score (9)

Comments:_____

DC-7b. If the Department of Commerce's MICROBUSINESS OFFICE were to purchase and operate PORTFOLIO MANAGEMENT software on behalf of the MBDCs, would your MBDC participate in the system? MBDCs would supply the State Office with necessary data inputs and would receive quarterly (and on request) printouts on the Portfolio's status.

1____ Yes, definitely
5____ Probably
2____ Not Sure
2____ No Score (5)

Comments:_____

DC-8. What aspects of DOC's involvement with the MBDCs would you like to see changed?

DC-9. What services currently provided by the Montana Department of Commerce do you find to be most beneficial?

(CONSIDER ALL DEPARTMENT OF COMMERCE AGENCIES WHEN RESPONDING TO THIS QUESTION)

	Very Beneficial	Beneficial	Mixed/ Neutral	Not Beneficial	Check here if service is not available to your MBDC area	Score
Dissemination of public information about the availability of MICROBUSINESS Loans	___	1___	5___	1___	☐3	(6)
Dissemination of technical information about making MICROBUSINESS Loans (for MBDC staff)	___	2___	5___	2___	☐1	(8)
Providing/procuring technical assistance for MBDC staff	___	2___	2___	3___	☐3	(3)
Procuring/providing training for MBDC staff	2___	3___	1___	2___	☐2	(11)
Promoting public awareness of your MBDC	1___	1___	2___	2___	☐4	(3)
Recruiting clients from targeted population groups	___	1___	2___	3___	☐4	(0)
Recruiting clients (in general)	2___	1___	2___	2___	☐3	(8)
Providing/procuring technical assistance for MICROBUSINESS clients	___	3___	3___	2___	☐2	(7)
Training assistance for MICROBUSINESS clients	___	3___	2___	3___	☐2	(5)
Working with/gaining support of commercial lenders	___	1___	1___	4___	☐4	(-1)
Working with/gaining support of from other economic development organizations and groups	___	1___	4___	2___	☐3	(4)
Development of uniform guidelines for loan fund management and growth	___	___	3___	6___	☐1	(-3)
Oversight of MBDC financial administration	2___	3___	2___	2___	☐1	(12)
Ongoing review, facilitation,& updating of Dept. of Commerce's Adm. Rules affecting MBDCs activities	___	6___	2___	1___	☐1	(13)
Recruitment of operating funds for MBDC	2___	3___	2___	2___	☐1	(12)
Procurement of local match for Department of Commerce loan funds	1___	___	4___	4___	☐4	(3)

GEOGRAPHIC SERVICE AREA

The following questions are about the geographic areas served by the MBDCs. Please CHECK the response which most closely reflects your opinion.

GE-1. The area served by my MBDC is too large to provide effective service to distance communities.

Strongly Agree	Agree	Undecided/ Neutral	Disagree	Strongly Disagree	Score (-16)
☐	☐ 1	☐ 2	☐ 7		

GE-2. There are communities inside of our MBDC service area which could served more effectively by another MBDC.

Strongly Agree	Agree	Undecided/ Neutral	Disagree	Strongly Disagree	Score (-15)
☐	☐ 1	☐ 3	☐ 6		

GE-3. There are communities outside of our MBDC service area, which we would be able to serve conveniently and effectively.

Strongly Agree	Agree	Undecided/ Neutral	Disagree	Strongly Disagree	Score (+3)
☐ 1	☐ 4	☐ 2	☐ 3	☐	

GE-4. Do you support or oppose allowing MBDCs to provide services outside of their designated service areas?

Strongly Support	Support	Undecided /Neutral	Oppose	Strongly Oppose	Score (+3)
☐	☐ 4	☐ 2	☐ 1	☐ 3	

Comment:_____

GE-5. Do you think more competition between MBDCs for business clients would be a good thing?

Strongly Agree	Agree	Undecided/ Neutral	Disagree	Strongly Disagree	Score (-13)
☐	☐	☐ 1	☐ 5	☐ 4	

INTEREST RATES & OTHER LENDING ISSUES

IL-1. What is (are) the current interest rate(s) you are charging for MICROBUSINESS LOANS (use summer 1994 as example)?

10.6% 10.4% 11.6% 10.9% 12.6% 10.6% 12.6% 11.5% 11.5% 11.7%
11.6% 11.0% .... 12.6% .... 12.0% 12.6%

_____% _____%

IL-2a. Do you charge a different rate to return customers with positive payment histories?

1__Yes 5__No 4__too early to tell

b). If Yes, what rate do you (would you) charge these customers? _____%
(use summer 1994 as example)

.... 10.6% 10.6%

IL-3. Do you feel higher interest rates are a deterrent for people considering applying for MICROBUSINESS LOANS?

Major Deterrent ☐ Minor Deterrent ☐ Not a Deterrent ☐

IL-4. If you were able to charge a lower interest rate for MICROBUSINESS LOANS, how much would it increase the number of business loans you will make in the next year?

IL-4a). If interest rates were 1 percent lower:

1___ decrease
3___ no effect on number of loans
5___ 1-4 additional loans in next year
1___ 5-9 additional loans in next year
___ 10-19 additional loans in next year
___ 20-29 additional loans in next year
___ 30 or more additional loans in next year

IL-4b). If interest rates were 2 percent lower:

1___ decrease
1___ no effect on number of loans
4___ 1-4 additional loans in next year
___ 5-9 additional loans in next year
___ 10-19 additional loans in next year
___ 20-29 additional loans in next year
___ 30 or more additional loans in next year

IL-4c). If interests rates the state charges to MBDCs was to be lowered from 3.25 percent to 1.5 percent will you recommend to:

0.5___pass interest savings on to MICROBUSINESS borrowers

9.5___increase MBDC profits on MICROBUSINESS loans to improve financial self-sufficiency of MBDC operations.

___other_____

IL-5. If the Montana Legislature allocates additional $3.25 million in Coal Tax revenues to be loaned by MICROBUSINESS CORPORATIONS, how would you recommend the fund be allocated among the MBDCs.

4___allocated equally among the MBDCs
2___allocated on a first-come-first serve basis (who ever loans the money 1st)
3___allocated in proportion to population of the MBDC service area

1___other_____

IL-6. If 1994 Legislature allocates another $250,000 in loan capital to your MBDC, how long will it take for your to responsibly loan-out these funds? (Consider currently unloaned lending capital in making this estimate).

___ ½ year 3___ 2 years 3___ 4 years ___ Other_____
___ 1 year 2___ 3 years 1___ 5 years ___ Never
1___ 3 1/2 years

IL-7. How difficult will it be to obtain a (1-to-6) local match necessary to obtain additional state funds?

Extremely Difficult ☐ 6 Moderately Difficult ☐ 3 Not Difficult ☐ 1

IL-8. Do you feel local matching funds should continue to be used as lending capital? Yes___2 No___8

IL-9. Do you have alternative suggestions on how the local matching funds should be used by the MBDCs?

"Loan Loss Reserve"

IL-10. After what time period should unexpended lending capital (unclaimed by a designated MBDC) be made available for lending by other MBDCs.

___ ½ year	5___ 2 years	2___ 4 years	1___ Other_____
1___ 1 year	1___ 3 years	___ 5 years	___ Never

IL-11. Is there an unmet market for $20,001 to $35,000 MICROBUSINESS-type loans in your MBDC's service area?

substantial unmet market ☐4	moderate unmet market ☐5	small unmet market ☐1	no unmet market ☐

IL-12. If the 1995 Montana Legislature approves allowing MBDCs to make MICROBUSINESS Loans in the 20,001 to $35,000 range, how many of these loans will your MBDC make in 1996?

35_____$20,000-$25,000 28_____$25,001-$30,000 19_____$30,001-$35,000 = 82 $2.175 million

IL-13. Do you feel there is an unmet market $50,000 MICROBUSINESS-type loans in your MBDC's service area?

substantial unmet market ☐1	moderate unmet market ☐4	small unmet market ☐4	no unmet market ☐1

SELF-SUFFICIENCY OF MBDCs

SS-1. About what portion of your MBDC's TOTAL OPERATIONS COSTS are currently covered by income earned from borrowers: i.e. interest income; loan application revenues; and, fees received for training, technical assistance, and other services.

Nearly All (90-100%) ☐ Most (60-75%) ☐ About Half (50%) ☐ Some (25-40%) ☐ 5 A Small Share (0-10%) ☐ 4

S-2. Do you feel it will eventually be possible for your MBDC to become financially self-sufficient (i.e. interest income, loan application revenues, and fees received for training, technical assistance, and other services will cover the costs of your MBDC operations)?

1__This MBDC has already become financially self-sufficient.

__This MBDC will become financially self-sufficient in the next year or two.

2__This MBDC will become financially self-sufficient in the next three to five years.

3__This MBDC will become financially self-sufficient in the next six to ten years.

4__It unrealistic to expect this MBDC to ever become financially self-sufficient.

S-3. What are the obstacles to your MBDC achieving self-sufficiency?

	Primary Obstacle to Self-sufficiency	Secondary Obstacle to Self-sufficiency	Minor Obstacle to Self-sufficiency	Not an Obstacle to Self-sufficiency	Score
MICROBUSINESS loans are often too small to be profitable.	5___	4___	1___	___	(24)
Our loan portfolio is too small to generate significant interest income.	7___	3___	___	___	(27)
Loan defaults inevitably will sap our loan capital (interest earning potential) and increase our personnel costs.	2___	3___	4___	1___	(16)
Fees for training and technical assistance that are affordable to clients do not cover the costs of providing the services.	4___	3___	2___	4___	(20)
The margin between MBDC costs of money from the state, and loan rates to MICROBUSINESSES is too small.	4___	4___	2___	___	(22)
Loan application fees don't cover administrative costs for unsuccessful loan applications.	1___	4___	2___	2___ 1(NR)	(22)
We will need to significantly increase salaries if we are to retain key personnel.	___	___	___	___	(14)
Other_____	___	___	___	___	

SS-4. Which aspects of MBDC operations are or will be self-financed by interest income and other revenues earned by the MBDC.

	Currently Self-sustaining	Will become Self-sustaining	Will Never be Self-sustaining		Score
Program promotion & client recruitment	☐1	☐3	☐3	3(NR)	(+1)
Training services for loan applicants	☐1	☐5	☐3	1(NR)	(+4)
Technical assistance for loan applicants	☐1	☐3	☐3	1(NR)	(+2)
Loan Application preparation & review	☐1	☐2	☐5	1(NR)	(-1)
Monitoring MICROBUSINESS business performance	☐1	☐4	☐4	1(NR)	(+1)
Ongoing training for MICROBUSINESS clients	☐1	☐2	☐5	2(NR)	(-1)
Ongoing technical assistance for MICROBUSINESS clients	☐1	☐3	☐4	2(NR)	(+1)
Loan perfection and collection	☐1	☐7	☐1	1(NR)	(+6)
Research and development	☐1	☐3	☐3	3(NR)	(+2)
Portfolio development	☐1	☐5	☐1	3(NR)	(+6)
_____	☐	☐	☐		
_____	☐	☐	☐		

SS-5. In TWO YEARS (FY 1997), what portion of your MBDC's operating costs will be covered by interest income and other MBDC earnings?

Nearly All (90-100%) ☐1 Most (60-75%) ☐1 About Half (50%) ☐2 Some (25-40%) ☐4 A Small Share (0-10%) ☐1 1(NR)

SS-6. In TWO YEARS (FY-1997), which of the following do you expect to be sources of operating revenues for your MBDC?

	Primary Source of Income	Secondary Source of Income	Minor Source of Income	Not a Source of Income	Score
Interest income	7	2	1		(26)
Loan processing fees	2	4	4		(18)
Client paid fees for training and technical assistance		1	5	4	(7)
MBDC earnings from other training and TA services		1	5	4	(7)
Contributions from local memberships			6	4	(6)
Contributions from local civic groups		3	6	1	(12)
Local government contributions (city and county gov.)		1	5	4	(17)
Federal government grants		1	2	7	(4)
State government grants		4	2	4	(10)
Foundation grants	3	1	4	1	(15)
Grants from state & national corporations	1	2	4	2 1(NR)	(11)
Grants from local businesses		2	4	4	(8)
Other source_____					
Other source_____					

SS-7. If non-local grants are not available to support MICROBUSINESS operations in (FY-1997); will your MBDC be able to sustain and/or expand loan volume and services provided to MICROBUSINESS clients? (CHECK ALL RESPONSES THAT APPLY)

SS-7a. Number of Loans:

5___Growth in the number of loans made by MBDC will increase at same rate irrespective of outside funding for operations.
___Growth in the number of loans will be greater due to need to generate more operating revenues.
5___Growth in the number of loans will be less than if outside operating funds are available.
___Other_____

SS-7b. Average Loan Size:

2___Average size ($ amount) of loans will increase.
6___Average size ($ amount) of loans will stay about the same.
1___Average size ($ amount) of loans will increase.
1(NR)
___Other_____

SS-7c. Lending Policies

3___MBDC lending policies will become more conservative (reducing default risk).
5___MBDC lending policies will not be affected.
1___MBDC lending policies will become more liberal, to increase loan volume.
1(NR)
___Other_____

SS-7c. Staffing Characteristics:

1___Staffing will be increased, irrespective of outside funding of operations.
2___Staffing will be stay the same, irrespective of outside funding of operations.
3___Staffing will need to be decreased.
1___Staff will be asked to take pay cuts.
1___MBDC will be unable to retain key personnel.
1(NR)
___Other_____

SS-7.d MBDC Services:

2___Services provided by MBDC will be expanded irrespective of outside funding.
2___Loan recruitment and processing services will be expanded, but training and technical assistance services will be reduced.
3___Loan recruitment, loan processing, training and technical assistance services will be reduced.

1___Other_____
1(NR)

SS-8. Without funding from non-local sources, will your local MBDC be able to continue operations?

1___Yes, and growth and development of local MICROBUSINESS lending and services will not be significantly affected?
5___Yes, but growth and development of local MICROBUSINESS lending and services will be constrained?
2___No, we will not be able to continue local operation of the MBDC.

1___Other_____
1-(NR)

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